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Farmer COOPERATIVES

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June 1986

United States Department of Agriculture/Agricultural Cooperative Service

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Virginia Council of Farmer Cooperatives

Virginia's Statewide Council Marks Silver Anniversary of Serving Co-ops

A 109:11:

New Cooperative Concepts?

Randall E. Torgerson
ACS Administrator

You don't have to go very far these days to hear advocates of vastly restructuring cooperatives' principles, practices, and organizational structure. Some of it appears to be a genuine effort to improve operations in a dynamic operating environment. Others appear intent on making cooperatives over in the image of publicly held corporations. Both need to be scrutinized carefully to assure that the baby isn't thrown out with the bath water.

Farm credit banks, as an example, have made extensive use of Gary Schwendiman, Dean of the University of Nebraska's College of Business Administration, who advocates "the new cooperative." In his treatment, a series of perceived cooperative philosophies, values, and ways of doing business are challenged as being outdated, and a set of up-to-date ones are articulated.

In other cases, consultants in their first probe into understanding cooperative businesses, have recommended separating cooperatives' economic functions from those social and political in nature. And then there are those perennial advocates of linkages between cooperatives and investor owned corporations (IOF's). When distilled, these often seem to say producers should stick to the low-margin, high-investment part of the business and let the IOF do the high-margin, low-investment portion.

Each of these assorted approaches presents stimulus for examining cooperative thought and operations. The very foundation of the cooperative form of business is challenged. In the process, cooperative leaders are hit by a barrage of proposals that could unalterably change methods of doing business and ultimately the character and purpose of the organization itself.

Leaders should be alert to the need for constructive change. But rather than accept such proposals blindly, they should think through consequences of proposals, so unintended results don't occur.

Examples of proposals requiring careful consideration make the point. One says democratic control through one-person, one-vote is no longer appropriate. Voting according to volume is advocated. This is a red flag to those familiar with the development of cooperative thought. To the social philosophers, one-person, one-vote is the cardinal principle of cooperation that has to be taken literally. It distinguishes cooperatives most from other business forms.

Pragmatists on the other hand say production agriculture has become more diverse in size and makeup, as well as in specialization. To attract and hold patronage of large producers, some suggest multiple voting may be necessary and desirable. An example might be 1 vote per member, plus additional votes up to a maximum of 5 or 10 based on levels of business volume transacted. Alternatively, it may not be additional votes that would attract large patrons but rather performance of the cooperative in serving them.

Another example concerns various interest rates charged and discounts or credits given based on credit worthiness or volume of business with the organization. This gets at the equal versus equitable treatment issue. Cooperatives have always been based on the underlying concept of proportionality and equitable treatment. A critical judgment has to be made, however, concerning when that reaches a maximum and the mutuality of interests among members is destroyed.

An element binding voluntary organizations is the mutuality of interest among members. A certain amount of joint sharing is implicit in a joint undertaking. Carrying cost justified pricing to the nth degree for interest rates or services may obliterate the premis for the joint undertaking. One cooperative theorist's admonition seems particularly appropriate. It is that because cooperatives are saturated with internally disruptive forces, a relatively homogeneous membership is important to its ultimate success.

A third example concerns trade offs between the service orientation versus the profit requirement of a business enterprise. More priority on profit is encouraged with services as good as can be attained while still meeting the profit objectives.

Proponents say members should be offered only services for which they are willing and able to pay. Critics suggest cooperatives have become too bottom-line oriented like their corporate counterparts and have forgotten the needs and services they were originally designed to fulfill.

Each of these examples highlight contrasting views. They need to be given careful deliberation in addressing changes in organizational structure and cooperative principles and practices.

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Raymond D. Lett
Assistant Secretary
Marketing and Inspection Services

Randall E. Torgerson
Administrator

Gene Ingalsbe
Director of Information

Patrick Duffey
Editor

Peter Manzelli
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George Martin
Assistant Editor

Marjorie Christie
Editorial Assistant

Production Staff:
Deborah Cooper
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Declining 1985 Sales, Growing Losses Force Co-ops to Restructure Operations

Editor's Note: A series profiling the financial condition of the 100 largest U.S. farmer-owned cooperatives will be published in Farmer Cooperatives later this year. As a preview, USDA's Agricultural Cooperative Service (ACS) analyzed the financial status of 40 cooperatives of different sizes and types selected from this group. The data indicate financial changes in the cooperative business sector during 1985.

Adverse economic conditions continued to grip the agricultural sector, making 1985 one of the worst years for farmers and their cooperatives since the Depression more than 50 years ago. Excess production, high value of the dollar, weak export demand, depressed grain prices, and other conditions caused substantial restructuring in 1985 among federated regional and interregional cooperatives handling and merchandising grain.

Because of declining margins and losses, regional cooperatives owning a grain-exporting interregional (Farmers Export Co.) sold it to a large multinational grain marketing firm (Archer Daniels Midland Company—ADM). This resulted in reduced earnings from a writedown of assets on operating statements of member cooperatives. Another large grain marketing cooperative federation (AGRI Industries, Inc.), after several consecutive years of substantial losses, opted to form a grain marketing partnership controlled by a major noncooperative grain trader (Cargill, Inc.).

Within 6 months, three major federated cooperative farm supply/grain marketing regionals and a grain interregional (Mid-States Terminals, Inc.) were combined into a single organization (Countrymark, Inc.). Another major farm supply cooperative (Farmland Industries, Inc.) sold its large grain marketing subsidiary (FAR-MAR-CO) to a specialized grain marketing regional cooperative (Union Equity Cooperative Exchange).

In another significant restructuring, a federated farm supply/grain marketing regional (GROWMARK, Inc.) sold its grain operations to a major noncooperative (ADM) and thereby consolidated its grain marketing holdings in a new subsidiary (of ADM) in which both parties have equal representation. The cooperative also gained a seat on the noncooperative's (ADM) board.

Cooperatives continued to adjust and reposition operations in 1985 in response to the depressed agricultural economy. The adjustments were reflected in revenues, margins, total assets, and overall financial condition. ACS selected 40 of the Nation's 100 largest farmer-owned cooperatives and analyzed their annual and audit reports to determine key financial changes in 1985 compared with 1984. Significant findings showed:

- Total revenues declined nearly 13 percent—farm supply group 24.5 percent and grain group 18.5 percent;

- Total net margins (after losses) dropped more than 45 percent. However, the fruit and vegetable group was up 82.4 percent and dairy group 20.4 percent;

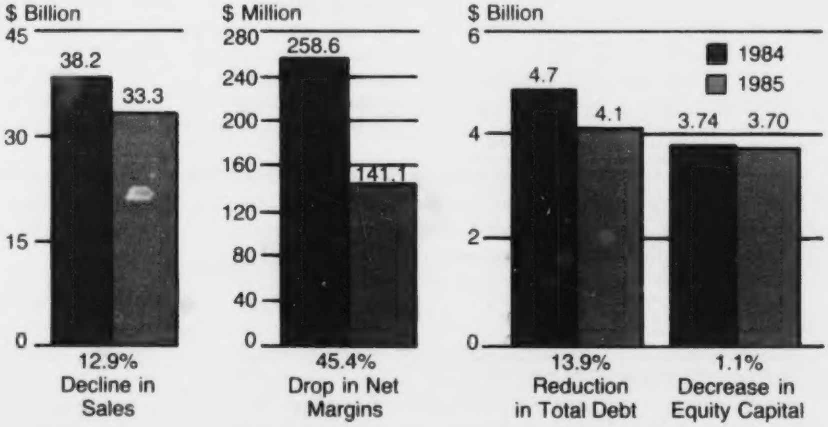
- Total net losses were up 270 percent, occurring only in the farm supply and grain groups. Losses in both groups exceeded net margins;

- Total assets were down 8 percent, representing the biggest dollar change since 1984 in the combined balance sheet;

- Total debt decreased almost 14 percent;

- Total debt to assets ratio was down 2.7 percentage points to 37.9 percent;

Figure 1—Farmer Cooperatives' Financial Performance, 1984 vs. 1985



Donald R. Davidson
Jeffrey S. Royer
ACS Agricultural Economists

- Total equity declined 1 percent;

- Total equity/asset ratio rose 2.4 percentage points to 34.4 percent;

- Every commodity group raised its equity/asset ratio;

- Debt/equity ratio (total debt to equity) fell 17 percentage points to 110 percent;

- Leverage ratio (long-term debt to equity) dropped nearly 5 percentage points to 72 percent;

- Current ratio (current assets divided by current liabilities) was up from 1.36 to 1.42; and

- Working capital (excess of current assets over current liabilities) was down less than 1 percent.

These significant financial changes offer a glimpse of what happened to the combined balance sheet and operating statements of all farmer cooperatives (5,782 in 1984) last year. Although the 40 cooperatives represented less than 1 percent of all cooperatives, they accounted for 40 percent of all assets and gross business volume. They also represented slightly more than 70 percent of the total assets and revenues for the 100 largest associations in 1984.

Business Volume Declines

Combined sales and other income (total revenues) of the 40 selected associations dropped 12.9 percent from $38.2 billion in 1984 to $33.3 billion (fig. 1). Farm supply and grain marketing cooperative revenues were hardest hit of the commodity groups (fig. 2).

Except for the fruit and vegetable group (sales up nearly 12 percent), all commodity groups had lower revenues. Lowest declines were in diversified (down 2.2 percent) and dairy (down 7.6 percent) groups.

Lower marketing sales primarily in grain merchandising was the main factor behind the 12.9 percent decline in total revenue for the 40 cooperatives. In both years, 33 of the 40 reported marketing sales. Total marketing sales were down about $5 billion or 18 percent in 1985. They accounted for 61.1 percent of total revenues versus 65 percent in 1984 (table 1).

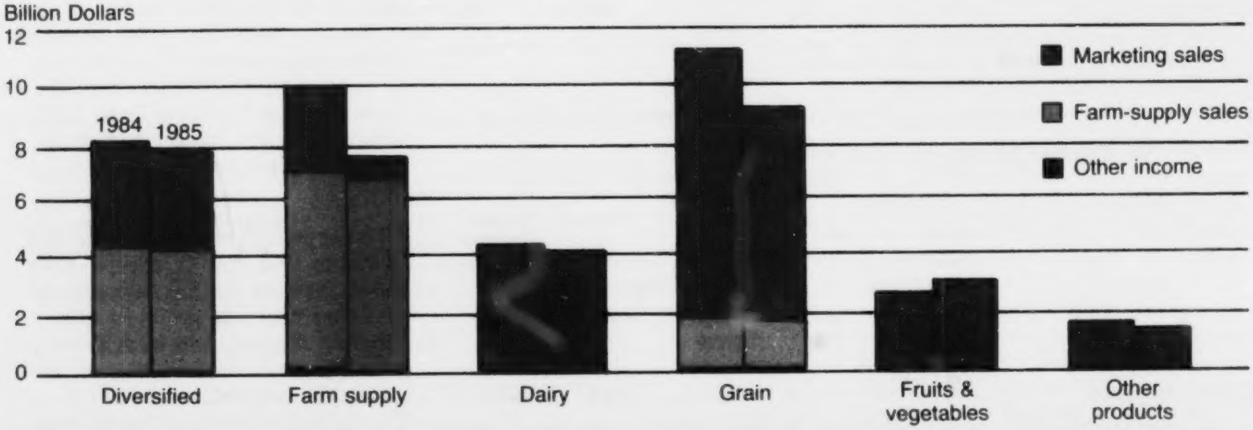
Nineteen of the 40 had farm supply sales both years. Sales fell $432 million or 3.3 percent in 1985. They represented 38.1 percent of total revenues compared with 34.3 percent in 1984. Other income supplied less than 1 percent of total revenues each year. However, 31 of the 40 reported other income both years. For some it was an important source of revenue.

Individual cooperatives among the 40 reported 1985 revenues ranging from $140 million to $4.1 billion, with a median of $503 million. In 1984, ranges for the same 40 were $163 million to $5.3 billion, with a median of $528 million. Ten cooperatives had sales of $1 billion or more in 1985 compared with 9 in 1984.

Margins Drop Sharply

Thirty-one of the 40 cooperatives had net margins in 1985. They collectively totaled $281 million, com-

Figure 2—Total Revenues by Commodity Group, 1984 vs. 1985



pared with 32 cooperatives and $296.4 million in 1984. Margins were down 5.2 percent before subtracting net losses (table 2). Eight associations had losses in 1985 compared with 7 in 1984. When those losses were deducted, net margins plunged 45.4 percent.

Net losses were nearly four times as great last year—up 270 percent. The grain group wound up both 1984 and 1985 in the red. Losses exceeded net margins by $40 million in 1985 compared with $25 million in 1984 (fig. 3). Only 2 of the 7 cooperatives in the grain group showned net margins in 1985 versus 4 in 1984.

The farm supply group of 10 cooperatives had the highest net margins of any group in fiscal 1984, but finished 1985 in the red. Heavy losses incurred by two cooperatives, both with substantial grain marketing activities, were chiefly responsible for bringing the group's combined net margins down. Another had only a minor loss. Seven of the 10 had net margins in 1985 while 2 made more money than in 1984.

Four cooperatives in the diversified group posted the highest total net margins in 1985, just slightly above the dairy group, but 25 percent below 1984. Three of the eight largest U.S. cooperatives were in this group. One cooperative with record margins in 1984 caused the group to decline last year. Its margins dropped more than half. Even with the big decrease, 1985 was one of the best years for the association.

Seven of the 10 cooperatives in the dairy products group had higher 1985 net margins. The group's total margins increased 20.5 percent from 1984. Margins for 1984 had been up 37 percent from 1983.

Fruits and vegetables had the biggest increase in 1985. The six cooperatives in this group showed increased net margins of 82.4 percent (fig. 3). However, the group's large increase was due solely to a seven-fold jump in net margins of one association. The other five operated on a pooling basis with one reporting no net margin (or loss) in either 1984 and 1985. Margins indicated by the other four were all below 1984 levels.

Debt Reduction Continues

Total borrowed capital outstanding for the combined balance sheet (table 3) of the 40 associations—including short- and long-term debt but excluding other current and noncurrent liabilities—decreased 13.9 percent from $4.7 billion in 1984 to $4.1 billion (fig. 1). In 1984, the selected 40 accounted for 74 percent of the total debt of the Nation's 100 largest cooperatives. That year, total debt of the 100 largest cooperatives declined 8 percent from 1983 and represented the biggest dollar change in their combined balance sheet.

All commodity groups reduced debt capital in 1985 (fig. 4), except fruits and vegetables (up 2.2 percent) and the other products group (up 10.5 percent). Biggest cuts in debt were made by grain (32 percent) and farm supply (21 percent) cooperatives. The diversified group lowered debt 10.6 percent and dairy 5.2 percent.

Table 1—Sources of revenue—[1]

Source	1985			1984		
	Number-[2]	Million dollars	Percent	Number-[2]	Million dollars	Percent
Net sales:						
Marketing	33	$20,355	61.1	33	$24,849	65.0
Farm supply	19	12,703	38.1	19	13,135	34.3
Other income	31	254	0.8	31	253	0.7
Total		33,312	100.0		38,237	100.0

[1] Includes intercooperative business.

[2] Cooperatives reporting revenue from each source.

Table 2—Net margins before and after losses

	Cooperatives-[1]		1985	1984	Increase (Decrease)
	1985	1984			
	---Number---		---Million dollars---		Percent
Net margins	31	32	$281.0	$296.4	(5.2)
Net losses	8	7	139.9	37.8	270.1
Margins after losses			141.1	258.6	(45.4)

[1] -One cooperative in both years used pool accounting methods with no net margin (or loss) activities.

Grain and farm supply groups also showed the biggest decreases in debt as a percent of total assets. Debt/asset ratio for grain fell nearly 6 percentage points in 1985 to 30.1 percent and farm supply almost 4 points to 35.5 percent (table 4). All commodity groups (except other products) lowered their debt/asset ratios last year. Ratio for the other products group jumped about 5 points to 43.4 percent.

Although in 1985, the fruits and vegetables group had 2.2 percent more debt on its combined balance sheet (fig. 4), the group's debt/asset ratio declined a point to 53.8 percent. The dairy products group had a substantially lower debt/asset ratio than any other group in both years. Its 1985 ratio dropped 1.2 points to 20.1 percent. The ratio for the 40 cooperatives combined fell 2.7 points in 1985 to 37.9 percent.

Table 3—Combined balance sheet of 40 large cooperatives

Item	1985	1984	Increase (Decrease)
	---*Million dollars*---		*Percent*
Current assets	$5,818	$6,560	(11.3)
Noncurrent assets:			
Investments	1,343	1,367	(1.7)
Property, plant, and equipment, net	3,383	3,583	(5.6)
Other assets	225	190	18.4
Total assets	10,769	11,700	(8.0)
Current liabilities:			
Short-term debt	1,425	1,881	(24.2)
Other liabilities	2,681	2,958	(9.4)
Total current liabilities	4,106	4,839	(15.1)
Noncurrent liabilities:			
Long-term debt	2,659	2,864	(7.2)
Other liabilities	302	253	19.4
Total noncurrent liabilities	2,961	3,117	(5.0)
Members' equity:			
Allocated:			
Equity certificates and credits—[1]	1,546	1,558	(0.8)
Preferred and common stock	1,513	1,490	1.5
Unallocated	643	696	(7.6)
Total equity	3,702	3,744	(1.1)
Total liabilities and equity	10,769	11,700	(8.0)

[1] Includes allocated retained earnings and per-unit capital retains not evidenced by preferred or common stock.

Total Assets Cut

Biggest dollar change on the combined balance sheet of the 40 cooperatives (table 3) was the 8 percent drop of $931 million in total assets to $10.8 billion in 1985. Total assets of all cooperatives after peaking in 1980 at $29.4 billion stood at $29.2 billion in 1984. Size of yearly changes during this period ranged from 1 percent ($257 million) to 2.5 percent ($576 million). Assets of the 100 largest cooperatives peaked at $17.2 billion in 1981, but dipped to $16.6 billion in 1984. Annual asset change during this time varied from 0.8 percent ($130 million) to 2 percent ($343 million).

Significantly, since 1980, none of the annual assets changes of all cooperatives (not even the 100 largest) were near the size of the 8 percent decline experienced by the 40 associations in 1985. Cooperative restructuring to improve services by streamlining operations, lowering debt, and reducing duplication resulted in the largest assets decrease since total assets peaked at the beginning of the decade.

Assets of individual co-ops within the group of 40 varied from $32 million to $1.4 billion, with a median of $176.6 million. In 1984, the range was $30 million to $1.6 billion with a median of $195 million. Assets of 2 organizations exceeded $1 billion both years.

Net Worth Position Improves

Although the 40 cooperatives cut assets and debt sharply in 1985, their balance sheet shrinkage had only a slight negative impact on the dollar amount of equity capital. Members' equity declined 1.1 percent from $3.74 billion in 1984 to $3.70 billion in 1985 (fig. 1). The net effect was an improved financial position as measured by the percent of equity

Table 4—Percent of equity and debt in total assets

Commodity group	Cooperatives[1]	Total equity		Increase	Total debt[2]		Increase (Decrease)
		1985	1984		1985	1984	
	Number	*Percent of assets*		*Percentage points*	*Percent of assets*		*Percentage points*
Farm supply	10	40.5	37.5	3.0	35.5	39.4	(3.9)
Grain, soybeans, and products	7	38.5	33.6	4.9	30.1	36.0	(5.9)
Dairy products	10	38.0	35.1	2.9	20.1	21.3	(1.2)
Other products	3	36.8	36.4	0.4	43.4	38.8	4.6
Diversified[3]	4	27.4	25.5	1.9	42.6	45.5	(2.9)
Fruits and vegetables	6	24.6	23.1	1.5	53.8	54.8	(1.0)
Total	40	34.4	32.0	2.4	37.9	40.6	(2.7)

[1] Identical cooperatives used in both 1985 and 1984.

[2] Includes short- and long-term borrowed funds, but excludes other current and noncurrent liabilities (see table 3).

[3] Marketing/farm-supply cooperatives engaged in marketing substantial amounts of several commodities.

Fifteen Cooperatives Gain Rank Among Fortune 500

The sale of Far-Mar-Co assets by Farmland Industries, Inc. moved the Kansas City regional back to *Fortune* magazine's listing of the top 500 industrial corporations. A recent high of 15 agricultural cooperatives made *Fortune* magazine's 1986 listing based on 1985 sales. Before the sale of its grain marketing subsidiary, Far-Mar-Co, to Union Equity Cooperative Exchange, Farmland had been No. 7 on Fortune's top 100 list of diversified service corporations. National Cooperative Refinery Association (NCRA) placed sixth among the top 500 industrials in assets per employee and second in sales per employee. Ag Processing, Inc., of Omaha was sixth in sales per employee. Not all of the nation's agricultural cooperatives eligible for listing among the '500' based on sales volume chose to release the requested information. Measured only by sales volume, a number of other cooperatives would qualify for the listing.

Cooperative	'85 Sales in $1,000	Ranking 1984	1985
Farmland Industries	$4,371,028	—	87
Agway	4,067,208	96	95
Land O'Lakes	2,267,148	161	164
Gold Kist	1,449,740	227	236
CENEX	1,375,813	237	250
Mid-America Dairymen	1,344,280	255	254
CF Industries	920,851	328	326
NCRA	894,568	371	339
Ag Processing	643,469	—	402
Riceland Foods	542,760	—	442
C & H Sugar	537,134	—	448
Ocean Spray Cranberries	531,999	478	452
Michigan Milk Producers	517,113	438	460
Sun-Diamond Growers	487,233	454	471
Wisconsin Dairies	464,363	474	483
Total	20,464,707		

—Not previously listed.

in total assets.

Their equity/asset ratio rose 2.4 percentage points to 34.4 percent (table 4). Equity's proportion of assets was higher each year because of debt reduction. Other liabilities' share of assets edged up slightly both years.

All of the 1.1 percent decrease in equity came from unallocated equity. Allocated equity (apportioned to members on the basis of patronage) rose $11 million, but was more than offset by the $53 million fall in unallocated capital. A major factor contributing to its decrease was the absorption of losses in 1985.

Every commodity group within the 40 associations increased its equity/asset ratio. Depending on type of operation, cooperatives vary considerably in percent of equity in total assets (table 4).

Other important balance sheet ratios also pointed to a stronger financial condition. For example, total debt to equity was 110 percent after falling 17 points in 1985. Long-term debt to equity was 72 percent after declining nearly 5 points. The current ratio was up from 1.36 to 1.42 and working capital remained virtually unchanged. ■

Figure 3—Net Margins by Commodity Group, 1984 vs. 1985

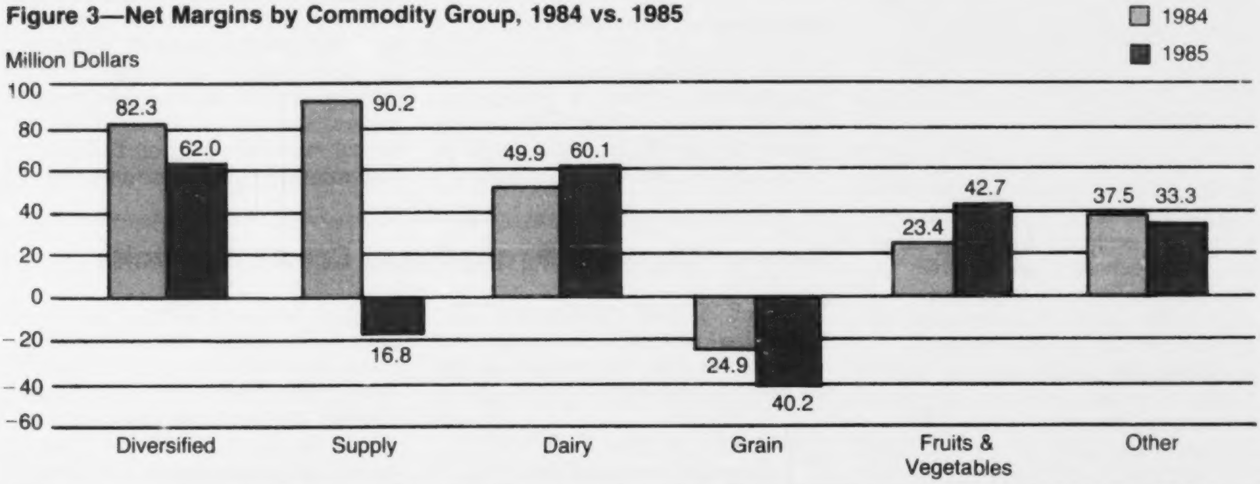
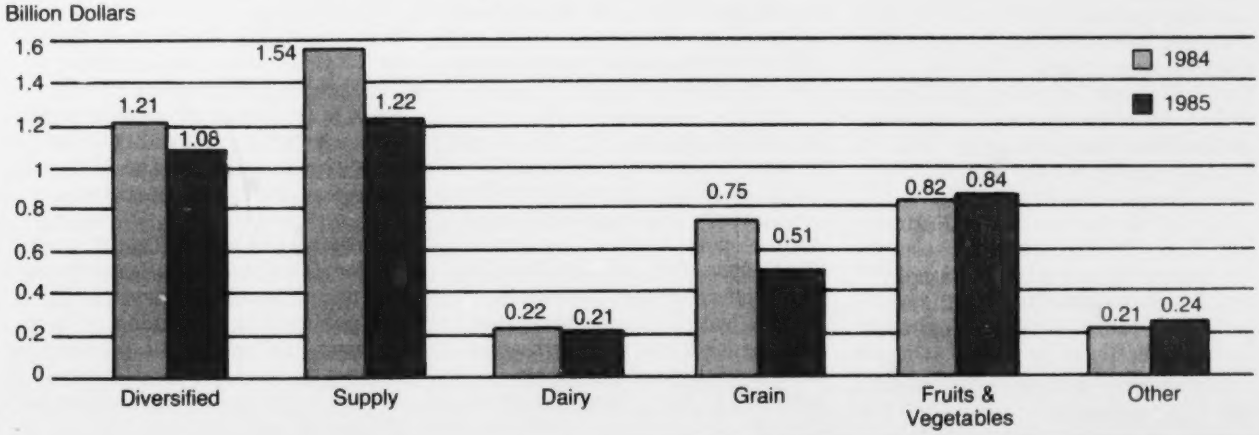


Figure 4—Total Debt by Commodity Group, 1984 vs. 1985



Cooperators, Youth at 1986 NICE to Seek 'Better Times Through Efficient Co-ops'

Cooperative leaders, educators, young farmers, and youths will seek "Better Times Through Efficient Cooperatives" when they gather for the 1986 National Institute on Cooperative Education (NICE) on the campus of the University of Tennessee in Knoxville, Aug. 4-7.

Subtopics of the upbeat theme will be "Managing Physical Resources" and "Utilizing Cooperatives' Unique Resources—People." More than 1,500 people are expected to assemble for the 59th annual national cooperative education conference sponsored by American Institute of Cooperation (AIC).

Six interrelated programs will focus on the interests of the diverse groups attending NICE. These programs are designed for young farmers, youth scholars, cooperative directors, college students and cooperative employees, vocational agriculture teachers and county agricultural extension agents, and faculty members from land-grant universities involved in cooperative education activities.

Keynoter for the opening general session Tuesday afternoon, Aug. 5, will be Ralph Hofstad, president and chief executive officer of Land O'Lakes, Inc. His remarks will echo the conference theme, "Better Times Through Efficient Cooperatives." After his address, concurrent sectional meetings for adults will discuss, "Cooperatives and Democracy in the Philippines," "Who Is the Farmer of the Future and Who Will Serve Him?," "Balancing Cooperative Philosophy and Economic Realities," and "Importing Cooperative Technology and Innovations."

At the workshop for early arrivals held on Tuesday morning, Aug. 5, Ronald J. Hanson, professor of farm management and agricultural finance at the University of Nebraska-Lincoln, will discuss "Family Farm Relations." Tuesday noon, the Honorable Emanuel Pelaez, ambassador to the United States from the Republic of the Philippines, has been invited to speak on "The New Philippines and Rural Development."

Using People Resources

Robert I. Kabat, director of the management services department, National Rural Electric Cooperative Association (NRECA), will speak on "Utilizing Cooperatives' Unique Resources—People" at the morning general session on Wednesday, Aug. 6. Sectional meetings after his address include, "Adjusting to the Changes in Rural America's People and Culture," "Whose Job Is It?—The Role of Members and Their Directors," "The Management Team for the Cooperative of the Future," and "Building and Maintaining External Relations."

Douglas D. Sims, chief operating officer of the Farm Credit Banks of St. Louis, will speak at the cooperative relations luncheon on Wednesday noon about "Building a Network of Support." Wednesday afternoon's general session will feature the AIC annual meeting plus Don Blakely, professional columnist and humorist.

Mary Kay Bidlack

American Institute of Cooperation

Banner Resigns From Farm Credit Council

Delmar K. Banner, president of The Farm Credit Council, has resigned effective June 30, to practice law in his native Champaign County, IL.

"The move," he said, "will also fulfill a long-time personal desire to participate in the family farm operation at a time when we believe we are needed there. I am eager to once again have a look at the financial problems facing many farm and cooperative business organizations from out in the country."

Established in late 1982, the Farm Credit Council is the nationwide trade association representing Farm Credit banks and associations and other cooperative farm lenders in Washington, DC. As the Council's first chief executive, Banner is credited with its successful formation and leadership through a serious financial stress for many farmers and their Farm Credit System.

Grant T. Lucas of Ceres, CA, chairman of The Farm Credit Council board, said Banner nurtured the council through its first 3 years, and skillfully and credibly elevated respect for its work this past year through his management of a most difficult legislative initiative (Farm Credit Amendments Act of 1985) in behalf of the system.

Prior to heading the council, Banner for 10 years was a senior officer of the Federal Intermediate Credit Bank of St. Louis. As council president, Banner has served concurrently as vice president of the National Council of Farmer Cooperatives.

Banner served as legal and tax editor for *Doane's Agricultural Report* and has authored numerous articles and publications pertaining to farm business, tax, and estate planning. He is a graduate of the University of Illinois College of Agriculture and College of Law.

After Thursday morning's general session on "Managing Physical Resources," sectional meetings will cover "Consolidation for Efficiencies/Joint Ventures," "What Is the Future of the Cooperative Farm Credit System," and "Attaining Efficiencies Through Technologies."

Farm Credit Speaker

Speaker for Thursday noon's Farm Credit luncheon will be H. Brent Beesley, president and chief executive officer, Farm Credit Corporation of America. He will discuss "Farm Credit—A More Efficient System."

Keynoter for the young farmer program opening Tuesday, Aug. 5, will be Bob Bergland, executive vice president and general manager of NRECA and former U.S. Secretary of Agriculture. He will speak on "Strategies for Young Farmer Expectations." Wayne Boutwell, president, National Council of Farmer Cooperatives, will speak to the young farmers at their Thursday general session on "National Legislation Affecting Cooperatives and Members."

Youth scholars also will enjoy special programs. Their keynoter Dennis Sargent, vice president of administration for Countrymark, Inc., will speak to them Tuesday morning on "Efficient Cooperatives—Building a Better Future."

AIC's annual meeting will begin at 1:30 p.m. Wednesday. Both new President David Thomas and new Chairman Don Schriver will be delivering their annual reports for the first time since assuming office.

The annual University/Cooperative Relations Conference will convene all day Monday, Aug. 4, and Tuesday morning, Aug. 5. Participants will explore "Changes in University—Cooperative Relations," "Meeting Members' Needs," and "Alternate Cooperative Structures." Advanced workshop for directors, employee and collegiate workshop, and workshop on cooperatives for teachers and agents also will be included in this year's NICE program. ■

Farm Credit Outlines Business Philosophy

Farm Credit Corporation of America (FCCA) at Denver, has approved a set of strategic objectives to change the way the $80 billion Farm Credit System does business in the future. The board of directors has approved a mission statement, strategic objectives, and a series of resolutions designed to improve the system's service to customers, set its interest rates, and work with its financially troubled borrowers.

The board discussed three "critical issues": serving system customers on a competitive basis, returning the system to long-term profitability, and managing risk. "We're going to change pricing strategies," said H. Brent Beesley, FCCA's president. "We have also developed funding strategies that will allow us to both manage interest-rate risk and offer more competitive rates. The FCCA board resolved to price our products and services on a differential basis considering the risk and costs incurred on each loan. We also have new credit standards throughout the Farm Credit System.

"The FCCA board and 37 bank presidents have agreed unanimously the banks and associations should work with troubled borrowers to the maximum extent possible. We will administer troubled accounts with the objective of utilizing Farmers Home Administration loan guarantees and other loan restructuring methods, including participation in Federal- and State-funded interest rate buy-down programs, as preferred alternatives to foreclosure."

Loan restructuring will be done after a case-by-case study determines the borrower has acted in good faith to manage his business, restructuring can return the borrower to financial viability, and restructuring alternative chosen would minimize the loss borne by the other stockholders of the bank or association involved.

"We intend to continue our constructive relationship with Farm Credit Administration (FCA), Beesley said. "We will work with the agency to minimize the cost of regulation to the system and its owner/borrowers and maximize the ability of the system to manage its own affairs.

"FCCA will represent the system in responding to the FCA's regulations and practices and encourage FCA to give the system more control over business decisions," Beesley said. "The system must be able to respond quickly to changes in the operating environment. This is an important element in our ability to manage risk and return the system to profitability."

Cooperative Netting Amendments Added to Internal Revenue Code

President Reagan has signed the Budget Reconciliation Act of 1985 into law. This act is especially important to cooperatives because it contains an amendment to Subchapter T of the Internal Revenue Code, the first in 8 years. Subchapter T describes how cooperatives are taxed.

The amendment makes it clear a cooperative with a loss in one operation may combine that loss with a margin in another operation for Federal income tax purposes. It includes new protections for cooperatives that provide more than one service to patrons. But it also adds new reporting requirements. Directors, managers, and professional advisers to cooperatives should become familiar with this amendment as quickly as possible.

For many years, cooperatives and IRS have disagreed on how much discretion cooperatives have in handling losses on their Federal income tax returns. Cooperatives have maintained the Internal Revenue Code has no special limits on handling of losses and cooperatives should be able to use any method available to businesses in general. This includes combining, or netting, losses and gains among operations in the cooperative.

For example, a cooperative may market grain for farmer members and supply fertilizer to them or market two different commodities, such as corn and soybeans. In both examples, one operation may incur an operating loss and the other a margin. "Netting" is a common practice of reducing the net margin by the loss before dividing the remainder among patrons as patronage refunds.

IRS has said "operating on a cooperative basis," required by Subchapter T of the Code, means all patrons must be treated on an "equitable" basis. To the IRS, this means a loss in one operation must be borne only by the patrons of that unit and can't be shared among all farmer patrons of the cooperative, except in certain narrow circumstances. IRS says it's unfair to ask patrons of a unit that earns a margin to reduce their patronage refunds to help patrons of the unit with a loss.

Cooperatives on the other hand say netting is not only a standard practice for tax purposes among businesses, but also the spirit of cooperation requires some sharing of benefits and risks among all patrons of a cooperative. A patron who shares someone else's loss this year may benefit from someone else's gain next year. Also, they contend farmers should be allowed to run their cooperative as they think best.

Several Federal courts have ruled in favor of cooperatives in cases where IRS challenged the way losses were handled. They have consistently said "fairness" decisions should be made by farmer members, acting through boards of directors, not by IRS.

Recent Service Ruling

Despite what the courts have said, IRS in January 1985 released an administrative ruling disallowing patronage dividend deductions in earlier years of a cooperative that netted. Its ruling was based on three arguments:

- The association had Section 521 tax status and netted between units performing marketing and supply functions. IRS said Section 521 requires qualifying cooperatives to file as if their marketing and supply operations are two separate entities. (Section 521 is part of the Code giving special deductions to farmer cooperatives meeting several strict organization and operating rules.)

- IRS asserted the cooperative hadn't shown convincing proof its allocation methods were "equitable."

- The board of directors, IRS claimed, had discretion over how the losses and margins of different units would be netted, so patronage refund deductions were invalid because they weren't made according to the necessary "pre-existing legal obligation."

The New Law

After this ruling was released, cooperatives, with the support of the Secretary of Agriculture, asked Congress for a simple clarification of the Code to make it absolutely clear to IRS that netting had been permissible since Subchapter T became law in 1962. As is frequently the case, other issues were raised during Congressional consideration of the matter. The result is a set of amendments considerably more complex than originally sought by the cooperative community.

Here is a summary of provisions in

Donald A. Frederick
Attorney

James R. Baarda
Agricultural Economist

the new law and the expected impact on cooperatives.

- Netting in principle—Cooperatives are specifically allowed (not required) to offset patronage losses attributable to one or more allocation units against patronage margins of one or more allocation units. Netting is permitted whether such units are functional, divisional, departmental, geographic, or otherwise. This is the clarification sought by cooperatives from Congress.

- Netting during acquisitions—The legislation was considered at a time when substantial restructuring was occurring among cooperatives, particularly with financially stronger associations acquiring those in financial trouble. Congress was asked to augment this restructuring by permitting the surviving association to take full advantage of any losses on the books of the acquired cooperative.

While the language in this section is somewhat complex, in general the new law permits an acquiring cooperative to offset losses of an acquired cooperative against margins earned by the surviving association after the date of acquisition. Thus, tax loss carryovers on the books of the acquired organization may be used to offset margins of the surviving association earned after the restructuring is completed.

- Notice requirements—The Department of the Treasury (which includes IRS) opposed the cooperative legislation. While it was pending before Congress, Treasury continuously argued any netting amendment must contain language requiring cooperatives that net to provide a detailed disclosure to each patron. Treasury argued full disclosure of netting practices was essential for a patron to make an informed decision on whether to continue to do business with the cooperative.

Cooperatives responded saying Treasury's plan would be burdensome to implement and unnecessary because of the close relationship between member-users and their cooperative business. Congress included a notice requirement in the amendment, but made it less onerous than Treasury requested. Cooperatives that net (and only those) must, within 8-1/2 months of the close of the taxable year, provide patrons a written notice that:

(1.) states the organization has netted margins from one or more allocation units against losses from one or more other units and the offset may have affected the amount being distributed to the patron,

(2.) generally identifies the offsetting allocation units, and

(3.) outlines what rights, if any, patrons may have to additional financial information under the cooperative's articles of incorporation, bylaws, or applicable statutes.

The law specifically permits a cooperative to refrain from disclosing any data about margins or losses of its units that the cooperative determines competitors could use against it.

Congress doesn't want the notice requirement to be burdensome. A clear notice in an annual report, newsletter, or similar publication mailed or delivered to each patron should be sufficient. But remember, if a cooperative does business with nonmembers on a patronage basis, then those nonmembers must also receive a copy of the notice. A separate mailing of the notice to each patron is permissible, but probably not necessary. No extensive regulations setting forth a format for the notice are anticipated.

Penalty clause—IRS can be expected to monitor the substance of notices, so care should be taken to ensure all required information is provided and notice is clearly displayed. If IRS finds a notice insufficient, it can require the cooperative to distribute a second notice meeting requirements of the act. An improper notice is not, however, grounds for disallowing a patronage refund deduction or any other penalty.

Effective dates—The provisions clarifying the rights to net and dealing with netting during acquisitions are effective for all tax years beginning after Dec. 31, 1962. The notice provision is effective for tax years beginning on or after April 7, 1986.

Section 521—The new law makes it clear netting won't jeopardize an agricultural cooperative's status of eligibility to use this section of the Code.

This legislation won't resolve all disputes between cooperatives and IRS over handling of losses or even over netting. The language doesn't directly address the most troublesome argument in the January 1985 ruling. Extensive board discretion over netting, exercisable after the close of the taxable year, negates the pre-existing legal obligation necessary to claim a patronage refund deduction. The extent and timing of board discretion appears to remain a real issue for further consideration.

Also, future policy direction of IRS in this area is undetermined. The language is only specifically applicable when one or more allocation units suffers a loss. IRS may challenge netting between units when one has a substantial margin and one a small margin. ■

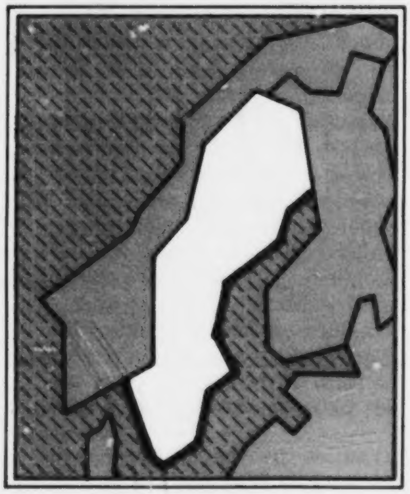
Sweden Coordinates Co-op Training With Continuing Adult Education

Editor's Note: Last September, three staff members of Agricultural Cooperative Service (ACS) visited cooperative organizations in five European countries as part of a scientific and technical exchange program offered by USDA's Office of International Cooperation and Development. ACS Administrator Randall E. Torgerson, Thomas Gray, and Gene Ingalsbe went to The Netherlands, West Germany, Denmark, Sweden, and Norway. The purpose of the trip was to: (1) identify researchers and practitioners in the areas of member control, involvement, and education, and (2) determine whether techniques and innovations might be beneficially shared with cooperatives in other countries in an international symposium. Preliminary findings from that trip are being reported in a series of articles. The first in the March issue presented an overview of the educational perspective of cooperative leaders in the five countries and a more specific description of the educational programs and activities in The Netherlands. West Germany was featured in April; Denmark in May. Tom Gray wrote supplemental articles in these issues.

Swedish farmers developed business cooperatives as a natural extension of their social custom from the earliest days of the country of working together in village-like communities. They helped each other, and a village council made decisions on important joint affairs.

The Partition Statute of 1827 tended to disrupt the village structure by putting together larger parcels of land and dispersing farmers who moved out to their new areas. But they soon found new ways to cooperate in "mortgage societies" so they could raise capital for investments in buildings, animals, and machines.

Gene Ingalsbe
Director of Information
and Education Staff



Two general types of organizations evolved, one economic and one a professional association. The Swedish Farmers' Union (RLF) was formed in 1929 as the professional association representing farmers and the economic side was composed of cooperatives structured as the Federation of Swedish Farmers' Associations (SL) in 1939. These two national organizations operated side by side until they merged in 1970 to become the Federation of Swedish Farmers (LRF), the apex organization for agriculture (fig. 1).

Some of the issues facing agriculture and cooperatives were summarized by Bertil Svenson, senior vice president and director of the cooperative department, and Ingemar Nilsson, head of foreign affairs:

- A national debate concerns what to do with excess agricultural land. "Consumers want cheap food, mixed landscape of forest, fields, and grazing animals." LRF has sponsored a campaign along this theme, including using billboard advertising.
- "A general deregulation wind is blowing."
- "Farmers were viewed with more favor 10 years ago."
- "Young farmers need debate on the value of co-ops."
- Cooperatives are facing increasing problems trying to serve both big and small farmers. "Discussion is surfacing on increasing the minimum membership fee, particularly in meat packing cooperatives. If services are to continue to be provided to small farmers, they must be more on an actual cost basis."
- The younger generation of farmers is not as loyal to cooperatives. This is being addressed through active discussions with young farmers and through study circles focusing on themes such as "Farming in the 1990's" and "New Times."
- Some bad fallout has occurred from mergers that have already taken place. The merger pace has slowed now and more emphasis is being placed on cooperative coordination. A number of merged organizations are decentralizing into numerous profit centers.

Questions also exist on how well the system is working in which the economic and professional association functions are coordinated under one organization. The professional association (RLF), directly financed by farmers' dues, began to run out of money in the late 1960's. This led to discussions of combining activities in 1970. Today, the cooperatives provide most of the funding to LRF but have less influence in their national organization. A number of organizational leaders see the need to make the cooperative side of LRF known better.

Education Activities

Each of 16 national federations of cooperatives conducts educational activities specific to the commodity or service in which they're involved. LRF is the source for some central educational materials and training facilities and is unique in integrating its efforts with public continuing adult education activities.

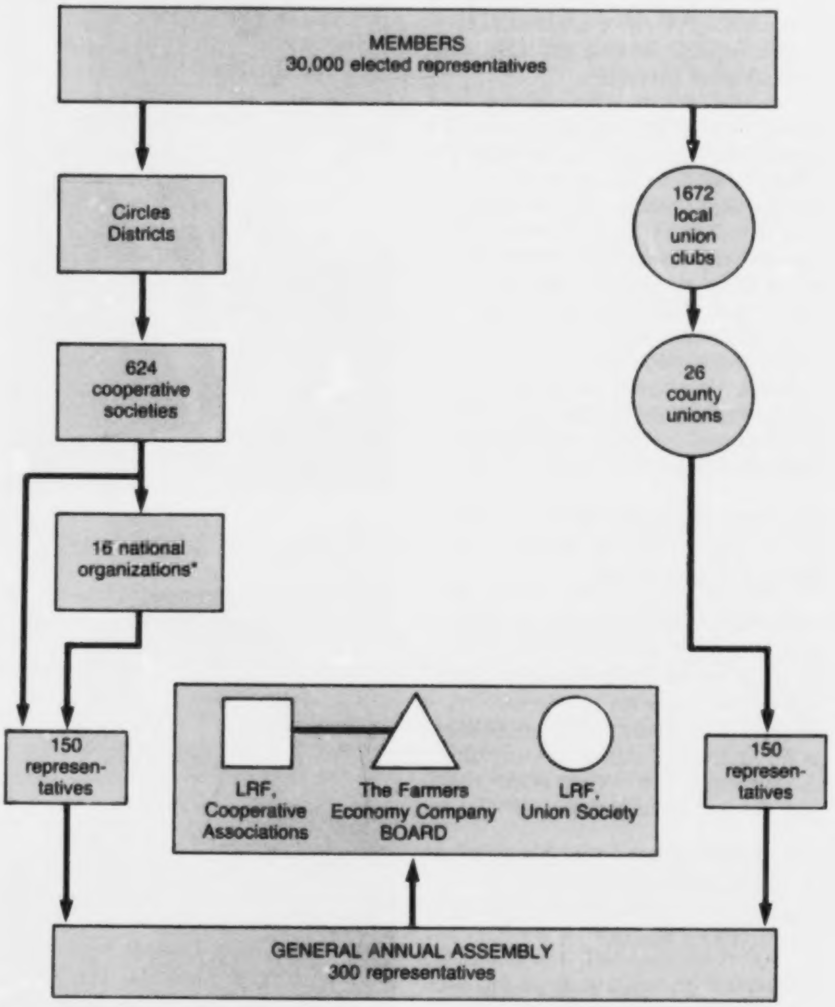
The Swedish University of Ag Sciences, Department of Economics and Statistics, includes cooperative instruction. Total enrollment of 130 students includes 40 studying cooperatives. Three courses are: (1) introductory—history, structure, and role; (2) advanced—oriented toward breadth and detail of cooperatives, including posing issues; and (3) orientation—a course for those who are not economics majors.

Consumer cooperatives represent a substantial sector of Swedish economic activity. They have formed an organization to review textbooks for inclusion of information about cooperatives. Kooperativa Forbundet (KF), the largest consumer cooperative, pays most of the funding for the organization, which is similar to the American Institute of Cooperation. Much of the resources are for teaching teachers, emphasizing youth cooperatives as a method for young people to go into business for themselves, and worker cooperatives to generate more jobs.

Training Facility

A principal educational fixed facility serving agriculture to train members, elected representatives, and employees is Sanga-Saby, an adult residential college outside of Stockholm founded in 1929 by The Farmers' Union. Sanga-Saby, which also has been a Folk (People's) High School since 1980, is run by LRF in collaboration with the Adult Educa-

Figure 1—The Federation of Swedish Farmers


MEMBERS
30,000 elected representatives
Circles Districts
1672 local union clubs
624 cooperative societies
26 county unions
16 national organizations*
150 representatives
LRF, Cooperative Associations
The Farmers Economy Company BOARD
LRF, Union Society
150 representatives
GENERAL ANNUAL ASSEMBLY
300 representatives

*Sixteen National Organizations

1. SMR —Swedish Dairies' Association
2. SLR —Swedish Farmers' Supply & Crop Marketing Association
3. SSR —Swedish Forest Owners' Association
4. SAH —General Mortgage Bank of Sweden
5. SOC —Swedish Oilcrop Growers' Association
6. SSF —Swedish Starch Producers' Association
7. SPR —Swedish Fur Breeders' Association
8. KRF —Association of Canning Crop Growers
9. SS —Swedish Farmers' Meat Marketing Association
10. SA —Swedish Egg Marketing Association
11. SFF —Federation of Swedish Cooperative Banks
12. SHS —Association for Swedish Livestock Breeding and Production
13. SBC —Swedish Sugar Beet Growers' Association
14. SBI —Swedish Distillers' Association
15. SFF —Swedish Seed Growers' Association
16. SPOR—Swedish National Association of Potato Growers

tion Association.

These two organizations jointly own the LT Publishing Co., which has published 5,000 different books (25 million copies), several manuals, and technological literature.

Periodicals publishing is also a major LRF activity. The largest is "Land," with a circulation of 430,000 and a readership of more than 1 million. It is both a farmers' membership newspaper and a medium to keep the public informed about agriculture and its problems. Most education days, however, are conducted outside of Sanga-Saby. Courses often are a combination of classroom and correspondence. Computer games involving the management and board are used.

The biggest programs are for elected members, both for farmers' union and cooperatives.

"Efforts are to get the large farmers involved," said Kjell-Arne Nilsson, instructor. "Our intention is to start a second level course for managers. A countrywide emphasis is on improving business leadership. A meeting is held every other year just for top management.

"About 20 percent of instruction is on production, marketing, and financing; 80 percent is on how to function as a board."

Examples of course topics include: how does group action work; what are the duties of the board and management; how to select and evaluate a general manager, particularly one coming in from the outside.

Nilsson said 'what if' games have been developed on computers in which the board and manager operate as a team. "It gives them a feel-

ACS delegation members visited with a number of officials involved with Swedish cooperatives and cooperative education. Among them were (upper left) Ingemar Nilsson, head of LRF's foreign affairs; (upper right) Bertil Svenson, senior vice president and director of LRF's cooperative department; (lower left) Kjell-Arne Nilsson, instructor at the Swedish University of Agricultural Sciences, Uppsala; and (lower right) Carl Utterstrom, former student of Randall Torgerson at the University of Missouri and now an executive of Arla, a large dairy cooperative.

ing of the economic situation and a working climate. The course covers marketing, finance, member relations, and so on."

Some cooperatives invite young farmers to join with the promise of sending them to training to learn about cooperatives. The degree of cooperative involvement in general education is further illustrated by examples of activities of LRF member organizations.

SMR dairy cooperatives offer special courses for those working in wholesale and retail stores designed especially to increase their knowledge of milk products and their technologies, as well as their nutritional value. A postgraduate course for engineers is given in conjunction with an institute of technology.

SSR forest cooperatives organized a series of courses as part of a national campaign to educate forest farmers. Courses dealt with safety, equipment handling, and production and management practices.

SS meat marketing associations offer a full range of courses covering the production and marketing of livestock. Additionally, literature is provided to the public concerning different qualities, prices, and new products.

LRF Funding

LRF has a staff of 300 in its headquarters plus others at regional locations. The major source of funding comes from cooperatives based on their volume. Funding also comes from the farmers' union side through membership fees based on farm size but with an upper limit.

LRF's educational section produces a textbook theme every year for a countrywide study circle program. Study circles involve meetings of 5 to 10 people. The government financially supports the program. The current emphasis is the requirements for farmers in the 1990s and the value of cooperatives. Cooperatives are encouraged to have farmers and employees take part. The internal focus is to make a better cooperative. The external focus is to raise the level of public awareness of agriculture and cooperatives. ■

Minnesota's Slettom to End 35-Year Co-op Career

Ed Slettom, executive director, Minnesota Association of Cooperatives (MAC) at St. Paul, has announced plans to retire November 1 after a 35-year career of State legislative lobbying for cooperatives and agriculture.

Ed Slettom

Slettom served as Minnesota's deputy commissioner of agriculture under two commissioners, Myron W. Clark, Byron C. Allen, and three governors. His lobbying activity for cooperatives began in 1956 when he became executive director for the Minnesota Association of Cooperatives.

During his career, Slettom has been involved with a wide variety of agricultural and cooperative issues both at State and Federal levels. any constructive changes were made in the laws governing cooperatives under his leadership and several harmful pieces of legislation were avoided. Slettom has served on several governor-appointed agricultural commissions and task forces designed to improve Minnesota's agriculture. His service to agricultural education and research has been recognized by adult and youth organizations. Under his leadership, thousands of high-school youth have received instruction about cooperatives through classroom activities, conferences, and tours.

In 1978, Slettom spearheaded a drive to secure funding from cooperatives nationwide for restoration of the Andrew J. Volstead home in Granite Falls. The home is now a museum in recognition of Volstead's work in gaining passage of the Capper-Volstead Act, which gave farmers the legal right to form cooperatives. Slettom has been a director of several national cooperative organizations such as National Council of Farmer Cooperatives, Cooperative League of the USA, American Institute of Cooperation, and Cooperative Foundation.

Virginia's Statewide Council Marks Silver Anniversary of Serving Co-ops

Directors of the Virginia Association of Electric Cooperatives provided the first spark in late 1959. Thirteen months later, under the initial leadership of Earl Shiflet, the association's executive secretary, that spark ignited the move to form Virginia Council of Farmer Cooperatives. Shiflet later served as council president in 1978-79.

Council members observed its silver anniversary March 19 in a symbolic gathering at Syria, VA, on the crest of the Blue Ridge Mountains in a display of their solidarity. It also was a celebration of 25 years of close cooperation among members with diverse interests and the State Department of Agriculture, Virginia Polytechnic Institute (VPI, the State's agricultural school), and leaders of general agricultural organizations (Grange and Farm Bureau).

And from that quarter century of close cooperation has emerged a strong educational effort to ensure the cooperative spirit will thrive in future generations through programs with American Institute of Cooperation (AIC), 4-H, and Future Farmers of America (FFA).

Responses to Shiflet's initial contacts about forming a council ranged from "mild enthusiasm to outright objection. There was little genuine enthusiasm evident at first," he recalled, and plenty of skepticism.

- The term cooperative was not the most favored in business lexicon at that time. Some felt forming a council would aggravate feelings of antipathy toward cooperatives by noncooperative businesses in the State.

Patrick M. Duffey
Editor

- Others said each type of cooperative had its own peculiar mission that might conflict with other eligible participants, thus creating animosity instead of harmony within the cooperative family.

- Some suggested efforts of the Virginia Agricultural Conference Board and other existing organizations were sufficient to protect and enhance the interests of agriculture, including cooperatives, so no other organization involving farmers was needed.

- Others sensed the possibility of unnecessary competition for the loyalty of their members in existing organizations. They opposed formation of the council.

Encouraged Exploration

In succeeding months, many individuals began to show interest and encouraged further exploration. William Johnson, president of the Baltimore Bank for Cooperatives, sponsored a couple of such events.

Harry Caldwell, former master of the North Carolina State Grange, president of the Agricultural Board of North Carolina, and a leader in agricultural cooperative activities in his State, was invited to advise the Virginians about forming a State council.

Shiflet presided at the meeting on May 31, 1960. Among attendees were Irwin W. Rust, USDA's Farmer Cooperative Service (now ACS); Elmer Kaylor, Rockingham Cooperative Farm Bureau; William H. Johnson, Baltimore Farm Credit Banks; L.E. Raper and Paul Mullenix, Southern States Cooperative; Frank Miller, Augusta Cooperative Farm Bureau; Thomas B. Hall, Jr., Virginia Dark Fired Tobacco Growers; Hollis Schlomo and A.G. Moffett, Virginia Department of Agriculture's Division of Markets; John W. Mays, Richmond Co-op Milk Producers Association; Vic Pringle, Rockingham Poultry Cooperative; W. H. Copley, Buggs Island Telephone Cooperative; Jack Smith, Mecklenberg Electric

Cooperative; S.N. Karikoff, Farm Credit Office; Chester Bletch, Maryland-Virginia Milk Producers Association; Jack Kirby, Producers Cooperative Exchange; and Harry Caldwell.

A committee was appointed to formulate a plan and proposed statement of purpose and objectives. Officials of the Virginia Agricultural Conference Board, VPI, and Virginia Department of Agriculture encouraged formation of a council. At an informal meeting on Dec. 19, 1960, the group voted to take preliminary steps toward that goal. Bletch was named temporary chairman and appointed a steering committee of Raper, Royall Robertson from the Federal Land Bank, Kaylor, Thomas Starke from the Southside Milk Producers Association, and Shiflet to prepare bylaws and constitution for review by State agricultural groups.

Meetings continued throughout the year and finally a group of 40 convened Sept. 19, 1961, in Richmond and formally voted to form a council. Elected officers were Bletch, president; Thomas Hall, Sr., vice president; and Robertson, secretary-treasurer. Richard Chummey, Virginia commissioner of agriculture, was subsequently appointed a public director of the council to replace his predecessor, Parke Brinkley, who had resigned his State post. To assist the council, Baltimore Bank for Cooperatives contributed $100 toward the cost of a leaflet describing the council's aims. Its starting financial resources were a mere $2.30.

Raper, a cooperative leader in North Carolina and Virginia and retiring from Southern States, was named the first part-time executive secretary. Raper established a sound foundation for the council that is reflected even today. It has a net worth of $45,000 to help finance a successful cooperative education program. ■

Future Co-op Success Tied to Building Public Awareness

"The continued health and growth of our cooperatives is tied to building awareness among our many publics. Without it we have no support in our society and without support, or at least awareness and understanding, we have no cooperative movement," advised Robert Bryan, former president of the Virginia Council of Farmer Cooperatives and currently vice president of member and public affairs for Southern States Cooperative.

"As farmers and cooperatives, we are a minority in society. And society will determine the economic and political climate, favorable or unfavorable, in which we operate. So building strong cooperative awareness in society is essential to our existence. In this regard," he said, "the Virginia council has been active and effective.

"Agricultural cooperatives have been fundamental for 75 years in some cases. Data from USDA's Agricultural Cooperative Service (ACS) shows we have 5,782 agricultural cooperatives in this country. Sixty-one percent are in marketing with a volume of $54.6 billion and 36.9 percent providing production supplies with a volume of $17 billion. Banking cooperatives in the Farm Credit System carry 32 percent of the Nation's agricultural debt. Where would agriculture be without this structured self-help effort called cooperatives?"

Looking ahead, he said, "The challenge is to build greater awareness of cooperatives. Despite our prominence in several areas, many people don't know about us. But you and your cooperatives are important."

A cooperative interest in legislation also is important, he said. "Lawmakers must be aware of the uniqueness of cooperatives," Bryan stressed. In support of a nationwide education and training program about cooperatives, the Virginia council has turned to American Institute of Cooperation (AIC).

On the State level, Bryan noted, the council conceives, develops, and implements activities and efforts to build cooperative awareness. But success at the State level depends on participation by cooperatives in the local communities. The council further builds awareness of cooperatives in Virginia by sponsoring an outstanding agribusinessman award for the Young Farmer Association, a cooperative seminar at State conventions of 4-H and Future Farmers of America, and public appearances by R.V. Rice, the council's part-time executive secretary.

At the community and individual level, the council motivates members and their cooperatives to support council activities. "But the council's cooperative awareness efforts are only as effective as member support makes them. Members... make the cooperative movement more effective in meeting their needs and the council more successful," Bryan said.

Farm Credit System Prefers Debt Restructuring Over Foreclosures

The Farm Credit System sees loan restructuring as the preferred alternative for working with troubled borrowers. "Foreclosure is the last alternative and the least preferred," a representative of the Farm Credit Council recently advised the House Agriculture Subcommittee.

Douglas D. Sims, chief operating officer of the St. Louis Farm Credit Banks, said a pricing philosophy would enable system institutions to bring interest rates to more competitive levels. "The system must operate with a view to long-term profitability. We're not just preparing ourselves to receive Federal financial help. We've got to get interest rates back to competitive level," he told the lawmakers.

Sims, a member of the Washington-based Farm Credit Council's legislative committee, said, "... the decision to foreclose on a farmer isn't easily or quickly made by any of our farmer-board members of any Farm Credit System institution."

He said the banks and association "are making the commitment to administer troubled loans with the objective of utilizing loan restructuring measures, including participating in Federal- or State- funded interest rate buy-down programs and FmHA loan guarantees, as preferred alternatives to foreclosure."

While restructuring of loans is the preferred alternative, such decisions must be made on a case-by-case basis, Sims said. Key elements essential for a decision to restructure are:

- The borrower has acted in good faith to manage his business affairs.
- The borrower can present a plan that demonstrates realistic prospects for returning to financial viability.
- Restructuring would minimize losses that must be borne by other farmer-borrower-stockholders of the bank involved.

Sims said Farm Credit leadership favors a new pricing philosophy to make its interest rates competitive. Currently, the system sets rates on its average cost of funds—that includes recently sold securities and bonds sold months or years ago—rather than on the present lower rates. Consequently, Farm Credit interest rates have been running higher than its competitors in many instances. He stressed no interest rate changes can be made by a Farm Credit district without approval of the Farm Credit Administration (FCA).

Funds for the Farm Credit System loans are raised on Wall Street through the sale of securities. No Federal dollars are involved. In 1985, the combined banks and associations of the Farm Credit System reported a net operating loss of $2.7 billion, largest in its history. ■

Omaha Banks Salute Wheat Growers' Grebner

The Omaha Bank for Cooperatives has presented its 1986 "Cultivate-A-Manager" award to Warren Grebner, general manager of the South Dakota Wheat Growers Association in Aberdeen, SD. Grebner has been with the Wheat Growers Association for 23 years, 22 of them as general manager.

During that time, he has helped "cultivate" 22 employees to take on management duties within the organization.

John Harling, president and chief executive officer of the Omaha district banks, said, "Certainly, creating cooperative managers able to face the tests confronting our organizations in the future is one of the most critical issues facing our industry. It is difficult to center on this challenge when so many other factors appear to need our attention each day ... marketing, financing, credit policies, and other functions often make us tackle only the most immediate concerns rather than looking down the road and helping ensure the survival of our cooperatives.

"In today's world, success is often defined by survival. Organizations survive and prosper because of successful managers. But it is equally important to plan and prepare for the future, to make certain the cooperative is poised and prepared to continue to thrive long after the present management team is gone. Unfortunately, our abilities are so often judged by what we do here and now that this aspect of management falls lower and lower on our priority list, until we tend only to the day-to-day functions.

"What can managers and board members do to address this concern? Like any planning process, certain steps can be used as a guide. Determine employees who show promise as potential managers. What are their weaknesses and strengths? Determine how you, as current managers and board members, can 'cultivate' their abilities so they grow in their jobs.

"I urge each of you in a decision-making position to consider the future of your organization with as much attention and concern as goes into making other more immediate decisions. Don't limit your strategic planning process to operations. Consider who will lead your cooperative into the next decade and beyond," he concluded.

BRIEFLY NOTED

Agricultural Cooperative Service (ACS) periodically publishes research and service reports covering a wide variety of cooperative subjects. Some of the more recent topics range from a report on cooperative mergers to the financial performance of dairy cooperatives. For a copy of ACS publications, write Agricultural Cooperative Service, Washington, DC 20250. For the others, contact the listed organization.

YOUNG MEMBER PROGRAMS FOR COOPERATIVES by Thomas Schomisch and Thomas W. Gray. ACS Research Report 48. This study provides cooperative decisionmakers with effective strategies for developing young member programs in local cooperatives. To accomplish this, the study sets out to determine: (1) the range and scope of young member programs and activities used by a sample of local cooperatives, (2) relationship of these programs and activities to the legislative system of local cooperatives, (3) factors blocking their integration into local cooperatives, and (4) organizing procedures to help stimulate development of young member programs and activities.

FINANCIAL PERFORMANCE OF DAIRY COOPERATIVES by Thomas Stafford. ACS Research Report 49. Combined balance sheets and operating statements were used to develop benchmark financial ratios for dairy marketing cooperatives. Data from 291 cooperatives were summarized for five types of dairy cooperatives, then by three types and three size combinations. Both type and size make differences in most of the 16 financial ratios calculated as well as in the common size balance sheets and operating statements.

WHERE CREDIT WAS DUE: THE CREATION OF THE NATIONAL CONSUMER COOPERATIVE BANK. Jay Richter, veteran observer of agriculture and cooperatives and a columnist in a number of cooperative publications, has authored this book chronicling Congressional action and lobbying by the cooperative community leading to the bank's formation. Initial legislation was introduced late in 1975. President Jimmy Carter signed the legislation Aug. 20, 1978. Origins of the legislation date back to the mid-1930s when the first bill was introduced. Through the administrations of four Cooperative League presidents—Jerry Voorhis, Stanley Dreyer, Glenn Anderson, and Morgan Williams—the idea was nutured until it became a reality. The book details the struggle to make the co-op bank law, difficulties in making it work, and the year-long efforts to prevent its repeal. Proponents felt the greatest need for cooperatives was in the consumer area where the least was being done.

A RESERVE BALANCING POOL FOR SERVICES BY DAIRY COOPERATIVES by K. Charles Ling. ACS Research Report 51. This report examines the rationale for compensating dairy cooperatives for costs incurred in balancing milk supply for the fluid market. A reserve-balancing pool is proposed to facilitate deducting supply-balancing service credit from a marketwide producer pool and making payments to cooperatives for providing the services. The volume of necessary reserves maintained for the fluid market determines the size of the reserve-balancing pool. A dairy cooperative qualifies for pool payment based on the volume of milk delivered for fluid uses and volume of reserves actually balanced. An alternative qualification is to allocate the volume of necessary reserves each cooperative has to balance according to its share of market for fluid and other uses.

USING EXPORT COMPANIES TO EXPAND COOPERATIVES' FOREIGN SALES by Arvin R. Bunker and Tracey L. Kennedy. ACS Research Report 52. Many agricultural cooperatives can expand foreign sales by using export management companies (EMCs). Small cooperatives may find foreign markets too costly and time consuming to penetrate without EMC help. Larger cooperatives may use EMCs for sales of particular products. Services offered by EMCs and typical fees are discussed along with some guidelines for selecting an EMC.

AIC EDUCATIONAL FILMS AVAILABLE IN VIDEO. Two basic cooperative education films produced by American Institute of Cooperation (AIC) are now available in video, either VHS or Beta. They are "Cooperatives: The Farmers' Way" and "How People Do Business in Our Democracy." The price for either is $30. Contact David Simpson, AIC, 1800 Massachusetts Ave. NW, Suite 508, Washington, DC 20036.

FARM SUPPLY COOPERATIVES: STRUCTURE, OPERATION, AND GROWTH IN THE MIDSOUTH by Lloyd C. Biser. ACS Research Report 50. This 20-page report shows supply sales of Midsouth cooperatives grew at an annual rate of 43 percent from 1951 to 1983. This rate of growth was unequaled by supply cooperatives in any other region in the United States. Total cooperative sales of 300 member locals reached $1.1 billion in 1983. Supply sales in the five-State area averaged 13 percent of farm production expenditures in 1973 and 22 percent in 1983. Outside factors had only limited effect on cooperative growth. Regionals operated generally free of cooperative competition and cooperative management practices and teamwork contributed most to faster growth.

PEOPLE NEWS

At Sun-Diamond Growers . . .

David Newstadt, 56, of Colonia, NJ, has been chosen new president and chief executive officer for the California cooperative. Newstadt had been executive vice president of Best Foods North America, a division of CPC International, Inc. He succeeds William Allewelt, Jr., interim president since last December. He was selected after the resignation of Frank Light. Newstadt is experienced in food manufacturing and brand management and marketing including export marketing. He will direct business operations for Sun-Diamond's five member cooperatives: Diamond Walnut Growers, Sun-Maid Growers, Sunsweet Growers, Valley Fig Growers, and Hazelnut Growers of Oregon.

Three New Directors . . .

have been chosen for the recently chartered Farm Credit System Capital Corporation board. They are Leo Allmendinger, chairman of the Omaha Farm Credit Banks; John St. John, director of the Central Bank for Cooperatives and chairman of Federal Farm Credit Banks Funding Corporation; and Gene Schwackhamer, Baltimore Farm Credit Banks president. The board's two other members will be appointed by the chairman of the Farm Credit Administration.

Richard R. Meehl . . .

North East, PA, has been elected to a 3-year term on the National Grape Cooperative board of directors replacing Douglas P. Moorhead.

Russ Weathers . . .

former vice president of FCX, Inc., at Raleigh, NC, has been named vice president of program services for the National 4-H Council.

At National Cooperative Business Association . . .

Nancy E. Kantola, executive vice president of the Kansas Cooperative Council in Topeka, has been appointed vice president for government, public, and member relations for National Cooperative Business Association (NCBA) in Washington, DC. Her new responsibilities will include public relations, marketing, government relations, and membership recruitment and services. She will also oversee National Cooperative Business Foundation, National Cooperative Business Political Action Committee, and National Cooperative Business Institute, formerly the Rochdale Institute. She has headed the Kansas Council since 1981.

At Dairymen, Inc . . .

George Jung has been promoted to vice president of marketing-bulk products at the Louisville, KY, dairy cooperative. Jung will continue to be responsible for dealing with Federal and State marketing regulations, supervising Dairymen's sale of manufactured products, and assisting with raw milk pricing and surplus milk disposition. Jung joined Dairymen in October 1970. Prior to that, he spent 5 years with the U.S. Department of Agriculture as a dairy marketing specialist and agricultural economist.

At Sun-Maid Growers . . .

the board of directors has elected Peter J. Penner to serve as its new chairman and Joe Van Gundy as vice chairman. Penner replaces George Kaufman who decided not to run for reelection after heading the Sun-Maid board for 10 years. "We have come a long way in the last four months in putting together a total organization . . .," said Penner, noting Sun-Diamond's new president and chief executive officer. He pledged to work toward more efficient organization with better returns to growers. Penner has been a director since 1968. He farms 500 acres of grapes and 300 acres of deciduous fruit with his sons and owns an oil distributorship and a tree topping service with his brothers. Three other new members were elected to serve on the Sun-Maid board for the coming year, Leo N. LaMattina, Madera; David L. Walker, Caruthers; and Darrel W. Olson, Kingsburg.

James L. Rainey . . .

senior vice president, Kerr-McGee Corporation, and president, Kerr-McGee Chemical Corporation, Oklahoma City, will become president and chief executive officer of Farmland Industries, Inc., Sept. 1, according to Francis B. (Fritz) Gwin, chairman of the Kansas City-based farm cooperative's board of directors. Rainey, 56, will succeed Kenneth A. Nielsen who earlier announced plans to retire at the end of fiscal 1985 (August 31). Rainey, only the sixth president in Farmland's 57-year history, began his association with the regional cooperative in early May as president-elect. The executive grew up on a small farm in Indiana, received his bachelor degree in agriculture from Purdue University, and joined Kerr-McGee in 1968. He became president of Kerr-McGee Chemical Corporation in 1984. It ranked 117th on the *Fortune* magazine's 1985 list of the Nation's top 500 industrial corporations. Farmland listed 87th.

LEGAL CORNER

Qualifying As Cooperative Sometimes Can Be Costly

Cooperatives are protected under special laws only if they qualify. Sometimes qualification is easy, but failure to take simple required steps may cost the cooperative substantially.

An example of what can happen is discussed in *Flavo-Rich, Inc. vs City of Birmingham* (476 So. 2d 46, Ala. 1985). A cooperative failed to obtain a $5 permit and had to pay $70,000 in license fees and use taxes.

The cooperative was incorporated under a Kentucky cooperative incorporation statute. It had some members and business in Alabama. Alabama's cooperative incorporation statute excused cooperatives "organized" under it from several kinds of taxes, including license fees and use taxes. The statute also authorized out-of-state cooperatives to do business in Alabama, but only if they obtained a permit from the Commissioner of Agriculture and Industry.

The cooperative operated in Alabama for about 12 years without getting the permit. The City of Birmingham assessed use tax and license fees of about $70,000.

The cooperative argued it was exempt from those taxes because it was entitled to Alabama's exemptions for cooperatives. It said it was in fact "organized" under the statute because it met all requirements for cooperative operation other than obtaining a permit. The court said, however, the cooperative couldn't be "organized" under the statute and exempt from license fees and taxes, unless it was authorized to do business in Alabama. The law specifically required a permit for authorization. For all years in which a permit hadn't been obtained, the cooperative wasn't eligible for any exemption.

Contract Interference

Changing times sometimes call for careful business readjustments. In *Cook vs MFA Livestock Assn* (700 S.W. 2d 526, Mo. Ct. App. 1985), a cooperative (MFA) faced objections to the way it treated a contract hauler.

The hauler was an independent trucker. He had an oral agreement to haul pigs for MFA. After several years of hauling successfully, the trucker complained to MFA his volume had dropped. An agent for MFA said if the trucker would buy a bigger truck, MFA would give him enough hauling to pay for it. The truck was purchased. Volume increased, but later declined. The trucker, along with other truckers, complained again. MFA stopped using his services.

The trucker sued MFA on two grounds. He said MFA should pay him the balance of the cost of the truck, purchased at MFA's suggestion. The court said he couldn't recover from MFA. The arrangement with MFA wasn't a contract, and MFA had no binding obligation to use his services. The court said if MFA had benefited from the trucker's action and not compensated him, fairness might require payment. The facts showed, however, MFA received no benefit from the new truck purchase.

The trucker also leased his truck and driving services to another hauler. When their initial contract expired, they agreed to extend the arrangement indefinitely. The other hauler served MFA. MFA told the hauler not to use the trucker to haul MFA pigs.

The trucker claimed MFA interfered with his contract with the other hauler. MFA contended there was no contract with which it could interfere. The court said interference with contract may happen, even if no binding agreement exists. Only a "valid business relationship or expectancy" is required, and that "expectancy" may have been present for the trucker before MFA's action.

The court said the trucker's claim against MFA could not be summarily dismissed. Issues of fact surrounding the contract interference complaint had to be settled at a trial.

Not Required to Pay Again

Marketing cooperatives frequently purchase products farmers have pledged as collateral for loans. Cooperatives must be careful to satisfy all requirements of the security interest or risk paying for the product twice—once to the farmer and once to the lender.

In *Century Chemical Corp. vs Columbia County Grain Growers, Inc.* (710 P. 2d 816, Wash. Ct. App. 1985), the farmer borrowed from a bank, securing the loan with crops and machinery.

James R. Baarda
ACS Agricultural Economist

United States
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Washington, DC 20250

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Legal Corner continued

The farmer then purchased fertilizer on credit from Century, pledging the crop a second time as security for payment. The security agreement between Century and the farmer said the crop wouldn't be sold without Century's written prior consent.

The farmer sold the crop to the cooperative without obtaining consent from Century. The cooperative wrote its check jointly to the farmer and bank. The bank applied proceeds against the loan and dishonored a check written to Century by the farmer. Century brought action against the bank, farmer, and cooperative.

Century claimed it should have been named payee on the cooperative's check. The court disagreed. It said special Uniform Commercial Code provisions permit farmers' creditors to collect from those who bought the farmer's product if they aren't paid from proceeds under security agreement terms. The court said the provision wasn't intended to let junior creditors (Century) recover when the collateral value is insufficient to satisfy the loan owed a senior creditor (the bank).

Two security interests existed, and collateral was insufficient to satisfy both. Priority rules applied, and the cooperative was not required to pay Century once it satisfied the bank's interest.

Special rules for farmers have been modified by the Food Security Act of 1985. Cooperatives should keep up with activities in their States as the new law is implemented.

Farmer COOPERATIVES

July 1986

United States Department of Agriculture Agricultural Cooperative Service

Domestic Recovery, International Trade Concerns Face Nation's Ag Co-ops

ACS Marks 60th Anniversary in USDA

A unique law was passed by Congress on July 2, 1926, through enactment of the Cooperative Marketing Act. It provided for a unit in USDA that would focus its resources on cooperative business organizations. The legislative history of the act, which extended from January 1925 in the 68th Congress to July 1926 in the 69th Congress, sought to have the unit serve as a "clearinghouse" for different cooperative organizations used by farmers. Central to this function, was "...a source, or some expert to whom they could go, or some clearinghouse from which they could obtain information as to the experience of cooperative organizations here and there and over yonder (so) they might avoid a great many of the pitfalls."

Out of these deliberations came authorizations for work by the unit in developing and extending information on cooperation. It put the USDA in the role of encouraging cooperative marketing.

The missions outlined in the act are as fresh and relevant today as they were during the intense organizational period of the 1920's. They include conducting a program of research on legal, economic, and social phases of cooperatives, providing technical advisory service to cooperatives requesting analysis, assisting groups of producers wishing to organize new cooperatives, collecting and reporting statistics and history of cooperation, promoting knowledge of cooperative principles and practices, and making studies abroad that can provide lessons to learn here at home.

ACS continues to provide a storehouse of information on cooperative operations. Work is carried out internally and through cooperative research agreements with various public universities throughout the country. More than 100 publications are available in nearly every aspect of cooperative organization and operation. These are used by various local, State, and regional cooperatives throughout the country; the Extension Service at State and Federal levels; the farm credit system, national cooperative organizations; and various levels of our educational system, particularly the land-grant universities.

USDA's cooperative unit has functioned in different organizational configurations. It started as a division of Cooperative Marketing in the Bureau of Agricultural Economics. In 1929, it was transferred to the Federal Farm Board. When the Farm Credit Administration (FCA) was created in 1933, the unit was transferred to it and named the Cooperative Research and Service Division. During the Eisenhower Administration, agency status was given to the unit in 1953 and called Farmer Cooperative Service when FCA was separated from USDA. This agency status remained until 1978 when Farmer Cooperative Service, Economic Research Service, and Statistical Reporting Service were combined in a single agency known as Economics, Statistics, and Cooperatives Service. These agencies were separated out again in the Fall of 1980 when the Cooperatives Unit was named Agricultural Cooperative Service (ACS).

The legacy of work in ACS is oriented to self-help efforts by producers of agricultural products. The objective is to make people more self-reliant and self-standing through cooperative activity.

Cooperatives have grown tremendously through a number of phases of development since the 1920's. They stand today on the threshold of major structural changes. Agricultural Cooperative Service has also grown during this period in stature and knowhow. It continues as a unique institution worldwide that focuses on strengthening the voluntary cooperation of people for their economic and social benefit.

Randall Torgerson

Randall E. Torgerson
Administrator

Farmer COOPERATIVES

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Kenneth A. Gilles
Agtg. Assistant Secretary
Marketing and Inspection Services

Randall E. Torgerson
Administrator

Gene Ingalsbe
Director of Information

Patrick Duffey
Editor

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Merge or Consolidate, Sands Urges; Can't Justify 5,000-Plus Co-ops

In the face of the restructuring in agriculture and agribusiness, cooperatives also must seriously look at consolidating their numbers. These changing conditions should prompt cooperative leaders to look ahead to what will be rather than looking back on what has been, Gold Kist's President Don Sands urged in keynote remarks at the Eastern Member Relations Conference recently in Orlando, FL.

Conferees honored Mr. and Mrs. Walter Jacoby. In addition to his work in fostering cooperative education while vice president of the American Insitute of Cooperation, Jacoby served on the annual member relations conference planning committee for many years. He retired last year. Next year's conference host will be Ohio Council of Farmer Cooperatives.

Sands said the agricultural restructuring "will bring about more changes in the next 3 to 5 years than we have seen in the past 20. Change not only can be challenging, exciting, and rewarding, but also frightening, extremely stressful, and even depressing."

Much depends on how an organization and its people prepare to deal with changes, he said. "Will you be one of the best, or one of the rest?"

Shrinking of Co-op Numbers

Sands bluntly told the member relations conferees, "Consolidation or merger should be pursued in most parts of the U.S. There is no justification for the intricate web of more than 5,000 farmer cooperatives existing today. With a shrinking farm population and the concentration of control in the hands of under 100,000 farmers who produce over half the U.S. agricultural sales, consolidation or bankruptcy are the only alternatives."

He continued, "Consolidation will eliminate duplicated effort, reduce needless competition, and provide more efficiency through centralized management of larger operating units. Another dimension of cooperative mergers is the diversification of risk, of paramount importance to single-product or commodity-base cooperatives.

"History tells us co-ops merge only when participants are on their death bed. Rather than merge small, sick companies to create one large, sick cooperative, why not explore consolidation when all partners are relatively strong?

"Look at the Farm Credit System's problems of the past 2 years. Mergers and consolidations were discussed for at least the past 5 years, but nothing happened until the entire system nearly collapsed under the greatest losses in the banking industry history. Were members' interests being served? I don't think so. It will be many years before the system regains its strength."

Change is always difficult to implement, he said. "But we have all seen the warning signs of coming major changes. It's this simple: Survival is built on change... It is our job to communicate the urgency, take action, and encourage members and management to either be one of the best at what we do or prepare to be one of the rest—doing something else outside of agriculture.

"Saying it once won't get the job done," he stressed. "We will have to repeat the message again and again to get it across. But by taking the message to the countryside, encouraging change, adapting to new methods, and increasing skills, we are serving the best interests of our members. That's member relations at its best."

Turning to the contraction occurring in U.S. agriculture and agribusiness, Sands pointed to the debt situation. About a third of the farmers in the United States have a debt-to-equity ratio higher than 70 percent and aren't likely to survive. Another third with a ratio of more than 40 percent are on the brink of bankruptcy. They need quick relief through higher income, but must cut their debt to survive. Right now, survival doesn't appear likely. The final third are relatively secure.

Congressional Report

As an indication of impending changes, Sands cited the 2-year study by the Congressional Office of Technology Assessment. It said wi-

Patrick Duffey
Editor

thin 14 years (the year 2000), animal and plant production will be revolutionized by biotech and infotech. Livestock will be meatier and leaner. Feed conversion rates will improve dramatically. Milk output per cow might average 24,000 or more pounds, nearly double today's average. Improved crops may make better protein, resist insects and disease, grow in harsh environments, "fix" their own nitrogen from the air, and grow more rapidly.

Information technology will improve insect and disease detection, use of pesticides and herbicides, and managment practices. Computers will control farm equipment, irrigation systems, and harvesting and handling equipment. New energy-efficient engines and robotics also are coming. Worldwide market information available through personal computers on the farm will improve marketing efficiency.

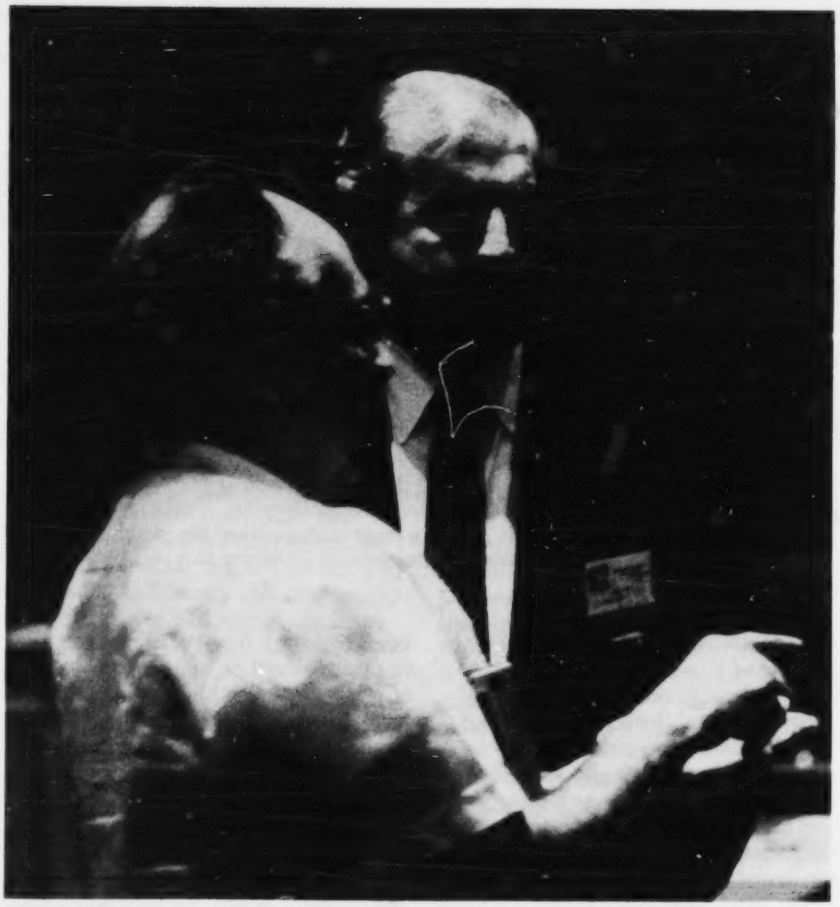
In terms of future customers, the big will get bigger and moderate-sized farms will tend to disappear. The number of small, part-time farmers, who get most of their income from off-farm sources, will grow dramatically. Large-scale farms ($250,000 or more) will be run by full-time, highly educated business managers. Moderate-sized farms ($100,000 to $250,000) will be run by farmers who depend on them for the majority of their income. They will be struggling to survive from low returns on capital, time, and efforts. Farm communities also will change. The impact will be felt by implement dealers, farm suppliers, marketing firms, bankers, and cooperatives.

Weather Prompted Changes

Gold Kist had to deal with this situation a little earlier than other cooperatives, Sands explained. Since the late 1970's, drought has severely reduced production and farm income in part of the cooperative's operating territory and still continues. In rare years when prices were high, farmers had sharply reduced yields. When yields rebounded, prices were low.

"Member loyalty is disappearing as a factor motivating farmers to do business with their cooperatives. If you have competitively priced quality products and good service, you will do well with farmers in your trade area."

Sands sees cooperative membership as little more than a fringe benefit. "It makes us different from other suppliers or buyers of agricultural products, helps get our foot in the door, but won't overcome shoddy products, poor service, or uncompetitive prices. We don't have to be cheapest on everything. Cooperative managers need to price goods and services at levels that will permit recovering all costs and contribute margins—the lifeblood of any business including a farmer-owned cooperative.



Prof. Will Robinson of the University of Illinois makes a point to Don Sands, Gold Kist president.

Mike Carlton, Florida Citrus Mutual, makes a point during one of the group discussions at Eastern Member Relations Conference. Listening in is Jim Loftis, Gold Kist.

Cooperatives are traditionally highly leveraged businesses, relying on debt and retained earnings for expansion capital, he explained. "But they haven't been able to move as quickly and strategically as some other forms of business. Farmers in our area today don't have the capital to invest in their cooperatives for growth and expansion."

Role of Subsidiary

As an alternative, Gold Kist established a subsidiary holding company to tap the equity market when market conditions warranted, Sands explained. The subsidiary owns a seed company, two poultry companies, an agricultural financing company, and a construction and engineering firm. "All are relatively small but poised for future growth. They will be partly financed by the sale of public investment stock. By offering stock in these companies, we can tap a new source of growth capital previously closed to cooperatives and limiting their expansion possibilities. Sands acknowledged it would have been heresy a few years ago for a co-op president to suggest the sale of stock to the public, but times have dramatically changed. "The dynamics of our industry have caused us to reevaluate our attitudes and embrace new methods of capital generation. It has worked for other forms of business for centuries, why not co-ops?

"To survive, we must use every financial tool available to remain competitive in our core businesses and expand them. Under the right conditions, stock offerings are potentially a great opportunity for expansion."

Gold Kist is involved in further-processed agricultural products, especially in poultry, while other co-ops are involved with dairy, citrus, fruits and vegetables, and other products. "Controlling the product further up the chain of processing is a sure way to capture greather profit margins. Joint ventures with non-cooperative companies offer the opportunity to combine production knowledge with market penetration and shouldn't be overlooked just because they aren't traditional with co-ops, "Sands said. (Earlier this year Gold Kist acquired assets of FCX, Inc., in South Carolina plus the remaining half of Golden Poultry, an egg marketing joint venture. Gold Kist has changed the name to Carolina Golden and will sell stock to employees and others by September to pick up extra capital, Sands said).

The population shift to the Sun Belt has created tremendous growth in the small towns Gold Kist serves. "To take advantage," Sands said, "our stores are undergoing major changes in everything from their name to their layout and merchandise plans."

The retail operations organized just after World War II were called Farmers Mutual Exchanges. "While this had some advantages early on," Sands said, "in recent years the name suggested only farmers could buy merchandise from them. Many potential customers passed us by because they thought they weren't welcome.

"Today, we call them Gold Kist stores. We are devoting major emphasis to line extensions and new merchandise items of appeal to urban and surburban customers. We aren't giving up on the standard farm supplies, but trying to take advantage of market growth to spread the costs of operating the farm supply centers over greater volume during the year. Urban and surburban customers are carrying part of the overhead during the 9 months of the year agricultural activity is relatively slow."

The switch in emphasis didn't occur overnight. "It involved major retraining of managers and some radical changes in how we buy and distribute merchandise. We had to teach managers and patrons alike that barbecue grills, shotgun shells, lawn and garden supplies, picnic coolers, and major credit cards fit right in with hardware, fertilizer, pesticides, and feed. In some cases, it was a severe culture shock. But it's working.

'We Must Change or Die'

"Farmer cooperatives are surrounded by evidence that following the easy way ends up in bankruptcy. We must change or die. We must make our members understand things at the co-op can't be the same or there won't be a co-op. It's up to member relations people to set the stage for making changes and bring them along as rapidly as possible."

In 1978, Gold Kist decided its 105 independent local associations would have to be merged into the regional cooperative to give it necessary financial and managerial controls. "So we prepared a program, took it to each local board of directors, and explained why it should be done. It wasn't greeted enthusiastically in every case. But after a year of effort, 101 of 106 (now 124) local associations voted overwhelmingly to be part of Gold Kist and to get on with the program," Sands said. He called it the greatest member relations effort since the cooperative system was founded 50 years ago.

"In many communities, the alternative was to lose a source of supply or a market for their products. While not every local facility today contributes margins to Gold Kist, no one doubts the overall impact was positive.

"Looking beyond our operations to other areas of agribusiness, we are all going to be doing business in new and different ways because of restructuring. Preparing members for these changes is an individual challenge we must all face," Sands said. Gold Kist has joined with five other U.S. and Canadian cooperatives and four European cooperatives to form In-Trade.

The organization acquired controlling interest in A.C. Toepfer, a major grain exporter in Germany. Later, Archer Daniels Midland Company, Decatur, IL, purchased Toepfer's remaining 40 percent interest. Sands indicated the company has been profitable and the members have realized returns from their investment. The company buys and sells product anywhere in the world, not necessarily the U.S. Sands said the company represented a diversification of risk bridge for Gold Kist to balance low periods in other product lines. ■

Midlands PCA Adopts Loan Pricing Program

Production Credit Association of the Midlands (PCA) board of directors has approved an individual loan pricing program for borrowers in Iowa, Nebraska, South Dakota, and Wyoming. Midlands was created by the merger of 37 local PCAs last Dec. 31.

The new program establishes a five-tiered interest rate structure with rates based on the level of loan risk. Lower interest rates will be applied to loans having little risk and higher rates to those with more risk. The interest rate classification for each PCA loan will be based on risk factors described as owner-equity position, current and intermediate position, earnings trend, and security position. The new program will apply to all existing and new PCA loans.

"For some borrowers, the new interest rate structure will mean lower interest rates. Rates will remain the same for many borrowers, and may increase for some whose loans represent a higher than normal degree of risk to the association," said Larry Shepherd, Midlands' chief executive officer.

"This individual loan pricing program will allow the PCA to offer equitable and competitive interest rates to all PCA members. The program appropriately reflects the risk of extending credit in the current economic environment and takes into account the cost of servicing loans," Shepherd said.

Farmland, LOL Halt Formal Talks

Formal talks between Farmland Industries, Inc., and Land O'Lakes, Inc. (LOL), looking at some form of unification of the cooperative systems, have been terminated. The move by the boards of directors leaves both organizations free to consider other options. Board committees, however, will keep communications open between the cooperatives with ongoing dialogue. President Ralph Hofstad said LOL was still committed to repositioning within cooperatives with special focus on eliminating unnecessary duplication and attaining more effective use of assets.

Agricultural Marketing Changing With Commercial, Part-Time Farmers

Agriculture like some other industries in the United States is in the midst of major structural changes, but is still a basic growth industry. Some of the changes will run counter to long-held traditions. But it will be harder not to make changes. Agricultural marketing people must become more attuned to what American consumers want. In a nutshell, that's how Gordon Sawyer, head of a Georgia marketing, advertising, and public relations firm and consultant to cooperatives in the Southeast, viewed conditions when he spoke at the Eastern Member Relations Conference recently in Orlando, FL.

"Our future business will be sensitive to people, not the past. General farming no longer exists, but has exploded into individual commodity-based industries. Sawyer said five structures have replaced the Golden Age farm.

- Integrated agriculture—The traditional farmer, agribusinessman, and processor/marketer have informally or formally joined forces. For example, vegetable producers have become their own processors and marketers. Integrators furnish chicks, feed, and technical advice to farmers who produce broilers on an efficiency contract and return them to the company for processing and marketing. Integrators are doing well contrary to the pattern elsewhere in agriculture.

- Commercial farming operations—Normally a business with $500,000 in gross sales is not big except in farming. The number of these farms has grown from 4,000 in 1969 to 31,000 in 1984. Almost half of all net farm income in the U.S. comes from these operations. By the year 2000, 50,000 farms will produce 75 percent of U.S. farm production. "Getting bigger won't guarantee profits, but it appears no farmer can hope to be profitable until he becomes a business-farmer in his segment of agriculture," Sawyer said.

- Part-time farmers—More than 2.2 million people live on but don't make a full living from the farm. They are a sizeable market. About 30,000 are going through the transition of building toward the $500,000 level. Their business raises member-relations questions on how to treat low- versus high-volume farmers.

- Food processor/marketers—While many farmers are having financial trouble, marketers are faring well financially. Profits declined during the first three quarters last year, but food industry stocks climbed 60 percent. Big investors and business people had faith in the future of the food business as evidenced by the sale of major food companies in the past year.

- World markets—In the late 1960s and 1970s, many thought the U.S. would feed the world. "We made some strategic and tactical marketing errors and became an unsure supplier. World markets quickly found other areas to fill their food needs. Now the world is a food producer and marketer. Agriculture has become a global industry."

In summary, Sawyer said, "The total food business has fantastic potential. But how is a marketer to find future success in an industry that apparently has just died...and is being reborn? Certain marketing strategies are working. Some have been evolving a long time and now are rapidly being adopted.

For those continuing to sell the commercial agriculture market and hoping to make a profit, Sawyer suggested these strategies:

- Focus marketing totally on integrated agricultural enterprises and commercial farming operations.

- Shift marketing, selling, and advertising to a business-to-business pattern and away from the traditional farmer-consumer structure. Farm decisions will be made by "committee" such as bankers, accountants, consultants, and others. As the farmer grows, so will the "committee." Agriculture has given only lip service to segmenting markets, compared with consumer marketers or leading business-to-business firms.

- Find ways to remove the fat from farm and agribusiness operations. Agriculture has more fat than industrial distribution. Farmers who operate like businessmen and integrators will find ways. Marketers who develop their own systems will be ahead of competition.

- Use market strategies to sell commodity producing segments of agriculture. Treat new developing markets as a growth industry. Those selling to agriculture will pay more attention to the businessman-farmer's advertising and marketing. Commodity promotions will be replaced by strong brand promotions from individual companies.

- Aim advertising strategy more at vertical markets, selling the company as well as a product, but put more emphasis on the company.

- Shape your strategy for selling the fast-growing part-time farmer market by adopting urban retail thinking. The market will become semi-urban and absorb garden centers and farm stores in nearby urban areas. In some areas it is bringing back city-located farmers' markets, a potentially strong market for farm-produced goods. ■

COOPERATIVE ACTION

Golden Guernsey Has Record Year

Golden Guernsey Cooperative of Milwaukee, WI, reported record sales of $150.9 million and record volume of 771 million pounds of milk during 1985. Annual meeting reports indicated the cooperative posted net margins of $1.7 million, up more than $350,000 from 1984. Patronage refunds of $1.64 million were paid to the 1,200 farmer-producers and the balance of margins was allocated to stock dividends and surplus. President LeRoy Luetscher said milk volume was running 8 percent ahead of a year earlier, and the organization was headed into another good year. About half of the milk goes into fluid products and the rest into butter and cheese. For the eighth consecutive year, Golden Guernsey milk was No. 1 in the metropolitan Milwaukee area, according to *The Milwaukee Journal* Consumer Analysis. Its cottage cheese has been first for 6 years. Capital improvements included expansion of the milk intake system and a computerized milk handling system at the Waukesha bottling plant; a freezer room for ice cream at Wausau; a larger butter churn at Sparta; a chiller and boiler at the Osman and Chilton cheese factories, now under single management; and a larger filler for juices at Madison.

Central Bank Reports $34.4-Million Net Margin

Central Bank for Cooperatives (CBC) at Denver has reported a $34.4-million net margin for 1985 and an average outstanding loan volume of $3.6 million. Total assets were $5.5 billion. The bank, one of 37 in the Farm Credit System, participates in loans to farmer-owned cooperatives and rural utilities with 12 district Banks for Cooperatives and provides international banking services for U.S. agricultural cooperatives. CBC President W. M. Harding said domestic participation loans accounted for $2.8 billion of the bank's 1985 average loan volume, while international trade financing contributed $711 million.

Harding said credit quality improved during 1985. By year-end, 87 percent of the bank's domestic loans and 99 percent of the international portfolio were acceptable. CBC Chairman Norman W. Allen, Schaghticoke, NY, said the bank's strategic planning for the future anticipates a continued period of financial stress in agriculture. The bank's three objectives are to maintain it as a sound and viable institution, assure continued delivery of constructive financial service to meet the needs of agricultural cooperatives, and position the bank to provide other services requested by the Farm Credit System.

Oregon Council Sets?

The board of directors of the Agricultural Council of Oregon has developed a mission statement about the purpose of the State council and identified five key performance areas for committees of the board to study, evaluate, and make recommendations. The statement said the council's mission is to "promote the success of cooperatives by providing information and education, monitoring and influencing governmental activities, and sponsoring other beneficial programs." The board identified these key performance areas: finances, communications/public relations, legislation, education, and organization. Volunteers from council members were encouraged to work on committees.

Agri-Mark Changes Equity and Dues Plans

Agri-Mark's board of directors has approved changes in both the equity and dues plans for the milk marketing cooperative. Changes in the equity plan were made to ensure the continued financial strength of the cooperative by maintaining its overall equity levels. Changes were prompted by expected decreases in members due to farm financial conditions and the total-herd-buyout program. The change was intended to ease the equity burden on current members whose production level is growing and make it less financially burdensome for new members to join the cooperative. This was the first dues adjustment in almost 13 years.

FS to Expand Seed Research

The FS Seed Division of GROWMARK has purchased 57 acres next to its seed plant near Williams, IA, to expand seed research and development of corn hybrids. The additional land will enable FS researchers much more freedom to develop inbred varieties, gather yield data, and obtain other information vital in hybrid seed corn development. Researchers will be evaluating an additional 11,000 potential hybrid plots. They will work with much more germ plasm in search of a wider range of disease and insect resistant traits leading to hybrids better able to withstand more stress in the field and still yield profitably. In particular, they will be studying the high-yielding characteristics of FS 854, the hybrid used in 1985 by Herman Warsaw of Saybrook, IL, to produce a record 370 bushels per acre from a nonirrigated farm test plot.

Co-ops' Role in Norway Requires Broad Educational Programs

Editor's Note: Last September, three staff members of Agricultural Cooperative Service (ACS) visited cooperative organizations in five European countries as part of a scientific and technical exchange program offered by USDA's Office of International Cooperation and Development. ACS Administrator Randall E. Torgerson, Thomas Gray, and Gene Ingalsbe went to The Netherlands, West Germany, Denmark, Sweden, and Norway. The purpose of the trip was to: (1) identify researchers and practitioners in the areas of member control, involvement, and education, and (2) determine whether techniques and innovations might be beneficially shared with cooperatives in other countries in an international symposium. Preliminary findings from that trip are being reported in a series of articles. The first in the March issue presented an overview of the educational perspective of cooperative leaders in the five countries and a more specific description of the educational programs and activities in The Netherlands. West Germany was featured in April; Denmark in May; Sweden in June. Tom Gray wrote supplemental articles in March, April, and May.

Even though Norway has no specific cooperative law, the cooperative sector is assigned a strategic role in the country's agricultural economy.

Cooperatives and the farmers union "negotiate" with the government's minister of agriculture concerning agricultural policy through an apex organization. "Cooperatives are then responsible for implementing resulting policy and program decisions," said Ole Romar Sandberg, Jr., director of the Division of Agricultural Cooperation.

Gene Ingalsbe

Director of Information
and Education Staff

Because no law is written for cooperatives, the apex organization must be responsible for helping guide policy decisions regarding cooperative organization, structure, operations, and control.

The apex organization came about to reduce the friction between cooperatives and the farmers' union, said Sandberg. Between 1975 and 1980, the cooperative side grew rapidly from 2,000 to 14,000 members. "The leadership strategy bringing them together," said Sandberg, "was based on (1) an apex organization should be formed; (2) members should have a choice on whether to join the farmers' union; and (3) the co-op idea should be strongly supported."

In 1980, the Central Federation of Agricultural Cooperatives (figure 1) became a division of the National Farmers' Union resulting in a functionally mixed apex organization.

The cooperative division, unlike in Sweden, retains its own board of directors. The National Farmers' Union staff totals 150 persons, with 100 in the headquarters and the remainder in district branches. The cooperative division has a staff of 20 organized into departments of education, statistics, taxes, and marketing and transportation consulting. A small unit also does some joint purchasing for member commodity cooperatives.

Each province has a council of cooperation where members of cooperatives and members of the farmers' union are brought together to discuss common interests.

Role of Education

Norwegian schools generally don't offer education on cooperatives. An exception is the Agricultural University of Norway at Aas.

Cooperative education is of particular importance, given the role of cooperatives in the country's socioeconomic structure. "Cooperatives are seen as an administrative and implementive structure for Norwegian agricultural policy," said Sandberg.

Illustrating, Sandberg said five of the national cooperatives are responsible for implementing the supply management, internal regulation, and stabilization parts of agricultural policy for meat, milk, poultry and eggs, fruits and vegetables, and fur. The state has a monopoly in small grains and is responsible for buying all grains from farmers and for buying imports.

"And agricultural policy is a social policy, also," said Sandberg, "covering other aspects of a farmer's life, including keeping the country populated in rural areas and maintaining self-sufficiency in food production in the event of another major calamity similar to WW II. Cooperatives are fully integrated and carry out the full range of value-added marketing activity, merchandising, and market regulations."

Education activities are carried out in a variety of ways. The Farmers' Union operates a folk high school. Though often considered, the idea of a fixed facility for education on cooperatives has been rejected. One factor has been cost, and the other the recognition of the need to continue to take courses on location. Because Norway is such a mountainous country, transportation between remote areas and a central location is a problem. Taking educational programs to districts is considered a more cost-effective method.

Much of the cooperative education effort focuses on elected officials. More than 450 elected members participated last year in structured educational programs. Cooperatives have 4,000 elected members; the Farmers' Union, 6,000.

As figure 2 illustrates, a structured educational program on policy, organization, management, and related subjects is being carried out for the elected membership, beginning with initial election and extending to members in the highest leadership positions.

In the bottom tier, subjects are handled through the study circle concept, working with the Rural Association for Adult Education. The study circle typically involves a group of 10 and operates with or without a teacher. Subjects may include law, economics, agriculture, or family life. The current emphasis is on "cooperatives in the future." The cooperative division provides materials for home study.

As the chart indicates, progressive instruction is given on policy, information, and functioning of the board. The latter course is presented in a case study format in which the class functions as a board for a theoretical cooperative.

Courses have been developed for employees, also, but have not been in demand.

As in the other countries, the education department develops the program and prepares materials, but in most cases the teaching core comes from the cooperative sector or outside specialists.

A retired general manager of a regional meat marketing organization in Hamar has joined the staff and developed the study material on the topic of cooperatives in the future. Additional responsibilities are to develop a program for recruiting young people to be the future leaders of the cooperative movement.

Dr. Tom Gray of ACS discusses work at the university with Dr. Per Ove Rokholt, right, and Dr. Kjell Aksnes.

Complementing its formal educational activities, the National Farmers' Union publishes two periodicals, a tabloid newspaper, "Bondebladet," and a magazine, "Norsk Landbruk."

Torgerson Returns to Study Site

Cooperative research and education work at the university level is centered at the Agricultural University of Norway at Aas.

Dr. Randall E. Torgerson, ACS administrator and leader for the five-nation study tour, attended the university in 1965-66 as a Fulbright Graduate Fellow. (He also attended the Swedish Center for Cooperative Development at the Royal Agricultural College in Uppsala, Sweden, in 1962-63).

A research program at the Norwegian university has been underway for the past 10 years, funded at a 1-million kroner level annually, with cooperatives providing half.

Nationwide comprehensive research during the period of 1977-86 on membership participation in Norwegian agricultural organizations produced several reports, the latest in 1983 on Norwegian farmers' attitudes toward cooperatives. The university participates in a Nordic project of joint research involving other Scandinavian countries. Researchers meet once a year for a working seminar. A 5-year program is designed to come up with a total picture of the cooperative organization. Present work is looking at solidarity, competitiveness, legislation, and cooperation among cooperatives.

Proposed research includes a sociological look at work on the institutionalization of cooperatives, said Dr. Per Ove Rokholt. "It's needed to support the structural changes going on in agriculture. We need to look at research choices from the perspectives of both family strategy

Figure 1—Apex Agricultural Organization in Norway

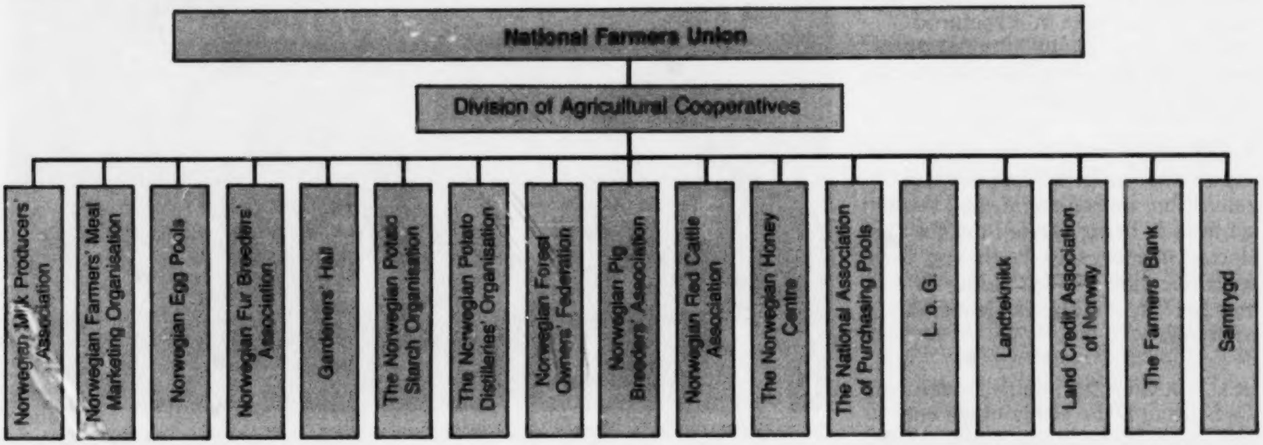

National Farmers Union
Division of Agricultural Cooperatives
Norwegian Milk Producers' Association
Norwegian Farmers' Meat Marketing Organisation
Norwegian Egg Pools
Norwegian Fur Breeders' Association
Gardeners' Hall
The Norwegian Potato Starch Organisation
The Norwegian Potato Distilleries' Organisation
Norwegian Forest Owners' Federation
Norwegian Pig Breeders' Association
Norwegian Red Cattle Association
The Norwegian Honey Centre
The National Association of Purchasing Pools
L. o. G.
Landteknikk
Land Credit Association of Norway
The Farmers' Bank
Samtrygd

Figure 2—Education Format, Central Federation of Agricultural Cooperatives

	POLICY	ORGANIZATION				MANAGEMENT
Leading Elected Members in the Central And District Organizations	Agricultural Negotiations	Annual Conference			Personal Legal Responsibility III	Oratorical Tech. and How To Meet Radio and TV
Chairmen of the Local Society Board and Council Members in the Districts, Regionally	Background Material for the Agricultural Negotiations Agricultural Policy II	Information II	Economic Management How to Work in a Nominating Committee	How to Work in a Control-Committee	Group Action II Boardwork in Cooperative I	How to Present a Subject Matter
Elected Members, Chairmen of the Local Society, Members of the Council and Representatives to the Annual Meeting Locally	Agricultural Policy I	Organization Strategy Information I	Representatives to the Annual Meeting		Oratorical and Disc. Technique	Management
Newly Elected Members and Other Members		Active Organization Active Local Society	Information		How to Plan and Lead a Meeting	

and farming strategy. Cooperatives can learn from broader sociological work, drawing and adapting from it.

"Cooperatives are an interesting case in business organization. Cooperative education strategy should be to 'smuggle in' information about cooperatives in other curriculums, perhaps as a case study, rather than to identify cooperatives as an independent sector."

Rokholt sees a conflict developing as cooperatives attempt to emulate the organizational and operational characteristics of business competitors. "We must watch where cooperatives cross the border and become something else, thus destroying what is unique. They may be destroying their strength."

A potential problem, also, said Dr. Kjell Aksnes "is the rise of exclusive clubs of leading producers within a cooperative."

Dr. Aksnes believes cooperatives in Norway have a "leading role in biotechnology, particularly in swine research, and have an edge in business management. Cooperatives are investigating the possibility of establishing a biotech lab at the university."

A restructuring of the university was going on at the time of the visit. Gunnar Oygard, director, said the changes were being made to better address the research and educational needs associated with the growing domestic industries of aquaculture and biotechnology and development of Third World countries.

The university is receiving increased requests for cooperative education from developing countries in the areas of teaching, research, and planning. Language is a problem but plans are to offer more classes in English.

Oygaard said a new financial system was being implemented to give the university more independence of operation, and the number of departments was being reduced to increase and encourage intellectual exchange among the teaching staff. ■

Four Inducted Into Co-op Hall of Fame

Four new members were inducted into the Cooperative Hall of Fame during the recent annual meeting of the National Cooperative Business Association in Washington, DC. Honored were E.A. Jaenke, Washington, DC; Roger Willcox, South Norwalk, CT; and two others posthumously, Edwin Gallatin (E.G.) Court and Aaron Sapiro. The Hall now has honored 50 cooperative leaders.

Jaenke is credited with expanding services available to rural America through the Farm Credit System. He restructured the Farm Credit Administration and played an important role in the creation and privitization of the National Cooperative Bank.

Willcox led the first large-scale nationwide program of consumer-sponsored cooperative housing development. As chief executive officer of FCH Services, Inc., a not-for-profit subsidiary of Cooperative Housing Foundation, he was responsible for the development of more than 55,000 dwelling units in 30 States.

Cort was the founder and first general manager of Minnesota Co-op Oil Company, the first petroleum/farm supply regional cooperative in the United States, later Midland Cooperatives, that merged with Land O'Lakes, and helped form Mutual Services Insurance, Group Health Plan, and Universal Cooperatives. He died in 1944.

Sapiro initiated development of a contract or marketing agreement between cooperatives and their members. He also developed a plan for the "commodity method" of orderly cooperative marketing, later known as the "California Plan." While organizing cooperatives in California, he stressed the need for a uniform cooperative marketing act before State legislators, committees, and farm groups. Most States have adopted his Standard Cooperative Marketing Act. He died in 1959.

NCBA also presented three graduate research awards to four winners for excellence in cooperative research. Greenbelt Cooperative's Glenn Anderson award was presented jointly to Dr. Jerry D. Johnson and Ms. Linda Capra, University of Wisconsin at Eau Claire, for production of a video cassette on cooperative businesses.

The National Cooperative Bank award, also in memory of Anderson, went to Ms. Joyce Haertel Ellenbecker of Anaheim, CA. The Roman Eller award and a $750 check honoring a retired executive of MSI Insurance, went to Ms. Lawrene Glaser of Washington, DC, for her master's thesis on diversification and resulting policy issues in local Wisconsin farm supply cooperatives.

Solutions to Ag Trade Dilemma Lie In Global Considerations: Yuetter

Agriculture globally is in trouble, more than it has been for a long time, but hopefully we are nearing the bottom. In time we've got to figure out the solutions on a global basis," U.S. Trade Ambassador Clayton Yuetter told delegates to the annual meeting of National Cooperative Business Association (NCBA) in Washington, DC, in late April.

Yuetter called for more long-term thinking about solutions to the existing agricultural trade dilemma and the increasing confrontation accompanying it. He said recent talks with the European Economic Community (EEC) were aimed at developing temporary arrangements on agriculture policy pending a longer term solution.

"The cost of EEC policy will escalate in the face of recent actions by the United States—devaluation of the dollar, reduced farm supports, and export enhancements—all intended to neutralize their program. Agriculture Secretary Richard Lyng has advised them we are displeased with the cut in the market and intend to get it back. An aggressive policy is in order," Yuetter said.

"It is imperative agriculture makes the agenda" for the 90-nation GATT negotiations starting this September in Uruguay. "We hope to get it on the preliminary agenda coming up this summer. I'd like to see agriculture on a faster track than the rest of GATT negotiations. The regular round could take 5 to 6 years. We can't wait that long. We are in a quasi-crisis now and need timely action."

Patrick Duffey
Editor

Agriculture's presence on the discussion agenda for the recent economic ministers' conference in Tokyo was an acknowledgment of concern by many people for needed change, he said. "We are also working on GATT-illegal programs by Japan. That government is hesitant to remove long-term programs."

The Senate Finance Committee is conducting bilateral negotiations with Canada aimed at opening borders and meshing programs. Australia and New Zealand "fear a shooting war between the U.S. and EEC with all the bullets landing in their area. We are trying to convince them stability and discipline are in our mutual interest."

Monetary Policy Impact

Fiscal and monetary policies such as interest rates will have an impact on the future of agriculture, he said. "We need to follow sound policy here and encourage the rest of the world to do the same. Heavy U.S. development prompted a lot of imports here, so pressure to restrict imports has developed in Congress. We want more development throughout the world to reduce the pressure on the U.S."

Looking ahead to the next few years, Yuetter said agriculture's greatest problem might be confronting the protectionist sentiment. "In the long run, the U.S. must be competitive. We suffer when we become protectionist," he said, citing Argentina as an example. "In industries with high labor costs, we must offset it by technology and capital management. We see a lot of strains in many products because of our aggressive policy against unfair trade practices. But you can't be magnanimous with a $150-billion trade deficit."

'No Food, No Development'

Sen. John Melcher of Montana repeated his plan for expanding use of surplus commodities in the Food for Peace and other programs as vehicles to develop future trade opportunities with Third World nations. "Without food, there can be no development. And until farmers can grow enough to feed their immediate families, there can be no growth of cities.

"Trading partners, commercial sales, and industrial development start to flow once you meet the agricultural needs," he said. But our "mountains of food" aren't "doing anyone any good" while the surplus overhangs the market and depresses producer prices around the world.

"The world today has a great need for food aid." Many parts need food, even in the United States. "The Food for Peace program should be expanded and Section 416 program aggressively implemented and used around the world...because it is right and in the best interest of the hungry. And they are in the best interest of people with surplus food." He said all trading partners would benefit "when food assistance starts the development ball rolling."

He indicated the 1985 Farm Bill represented a proper shift in policy. "The merits of it will be seen before the end of 1987." But, he cautioned, "the devastation of rural America should stop...We must do the best we can to retain our agricultural production machine...If the decline in rural communities continues, we will see a change in the fabric of rural America." ■

Free Trade Myth Makes Us Vulnerable; Build Alliances for Exports: Andreas

A major Midwest agricultural processor and exporter called on cooperatives, farmers, labor, and corporations to form alliances in behalf of trade reform and build a world trading system to "export goods and services, not jobs and wealth." Speaking at the NCBA annual meeting, Dwayne Andreas, chairman of the board and chief executive officer of Archer Daniels Midland Company (ADM), cited his firm's close connections with domestic and European cooperatives.

"Times change and and now it's universally recognized both cooperatives and proprietary companies are part of a free enterprise system. We no longer need to be adversaries. Both need to earn a return on investments. We operate in a global market, and whether we live or die depends on whether we can compete in that market. Our competition is state-owned and state-directed companies which have unlimited access to state treasuries and whose bottom line is politics, not necessarily profit," he said.

He said farmers, workers, and businesmen were victims of a "rigged" trading system, but "given a fair opportunity, we can compete with any country, set of workers, or group of farmers. But only if our Government sees to it our competitors play by the rules, not their misrepresentation of them."

Recalling a page from history, he said, "While Adam Smith was writing his treatise on free trade, a Japanese philosopher wrote, 'Foreign trade is a war in which each party seeks to extract wealth from the other.'" Andreas contended the philosophy was still in practice. "South Korea, Taiwan, and Singapore spend billions on costly export programs while the U.S. relieves them of the burden of billions in defense costs. It's as if the clock were turned back 210 years and we have become a colony again exploited by merchantile states."

Market Distortions

Andreas felt Government had a role to play in correcting the situation. "Unless our Government helps us to compete in a world dominated by state-driven economic nationalism, we will continue to see a deterioration of American's economic strength." He called the $150 billion trade deficit a "hemmorhage condition," every billion dollars in deficit costing us 25,000 jobs for American farmers and workers.

Today's market is distorted, he said. EEC pays farmers 27 cents a pound for sugar and dumps it on the world market for 3 cents or less, "forcing Third World farmers to the wall." Brazil sells soybean products on the world market for less than the value of the beans "and does it with borrowed money." It has cut the U.S. share of world soybean meal exports in half.

Malasia heavily subsidizes palm oil production and dumps its surplus on the world market at half the price of other vegetable oils. Vegetable oil processing plants in the U.S., including ADM, are moving overseas. Spain buys ethanol for more than $4 a gallon and dumps it at 35 cents a gallon. EEC puts a $3.71 tariff on U.S. corn. Spanish ethanol is shipped to Jamaica, cleaned up, reloaded, and put on the American market tariff free as a Caribbean Basin Initiative-product. The U.S. Customs Department loses millions of dollars and U.S. farmers lose the market for the equivalent of 10 million bushels of corn.To accommodate new members Spain and Portugal, EEC has instituted changes against grain imports, principally from the U.S. He said U.S. defense expenditures for NATO and Asian countries had freed their resources to subsidize exports.

"We can no longer cling to a free-trade ideology that doesn't fit today's economic realities. We have to start fighting back or go under."

Andreas credited U.S. Trade Ambassador Clayton Yuetter and the Administration for "blowing the whistle on EEC for violating agreed-upon rules," but felt the "full powers of the Presidency should be delegated to the office of the trade representative." Implementing key provisions recommended by the Task Force on International Private Enterprise he headed will help, he said.

While lowering the value of the dollar has helped revive exports, Andreas warned, "It's not a quick fix. Most of our trading partners are experts at devaluing their currencies in subtle ways and have lots of practice in absorbing losses to keep market share." What's needed, he said, is "serious negotiations to avoid trade wars and build fair international trading structures. These negotiations won't take place unless our Government becomes a more aggressive defender of our trading interests." ■

Fed's Angel Sees Anti-Free Trade Talk Outdated Philosophy

Dr. Wayne Angel, agriculture's representative on the Federal Reserve Board took a stricter view of domestic agricultural and trade policies as related to the Nation's monetary policy.

"Some believe the way to national prosperity is through subsidy and international trade is a state of war. If a country can be prosperous by giving out subsidies, then it would hold the more it gives, the more prosperous it becomes. But that's not what happens. If you believe in returning to the old notion of mercantilism and that you gain by importing more than exporting, then the world in my opinion is in for a rough ride. It is important to recognize an element of cooperation. I don't see any relationship between the cooperative movement and spirit and the notion that foreign trade is war," he said.

In 1981, world trade peaked at $2 trillion. After the recession of 1981-82, the level fell, but has since returned to $2 trillion and the 1986 level remains in question. "I once thought my life was designed to be the best inflation fighter in the world. I became part of the school of monetarism that said inflation was a monetary phenomenon." He went on to trace the developing pattern. "In the 1970s, the world moved to that monetarist notion. The U.S. was a follower, not a leader in it. In 1973, the world began to move to a flexibile-exchange-rate pattern."

Under the exchange-rate arrangements, "politicians around the world found it in their best interest to follow short-run gain, long-run pain program. It became politically popular to extend the money stock of the country to get gains from little increases in price and to stimulate production, followed by a little more inflation."

William E. Carnahan

Dr. Wayne Angel

William E. Carnahan

Dwayne Andreas

Not many recognized the move toward flexible exchange rates changed circumstances for many politicians, he noted. "The scorecard read differently. Countries who expanded their money supply too rapidly found the value of their currency fell. People in those countries could see immediate inflation of imported goods accompanied the currency decrease." Central banks responded with a much more restrictive monetary policy. In 1979, Federal Reserve Chairman Paul Volker in a series of meetings secured $31 billion in credit arrangements so the U.S. could borrow other currencies. Inflation here was rampant at double-digit levels.

Inflation Primary Problem

"In 1980," Angel contended, "the American people through polls said inflation was the Nation's No. 1 problem. In that environment, the farm industry had already suffered several shocks. One came in the form of embargo. I presume they were part of a trade-war thesis—use trade as a means of war. Our Government mistakenly entered the arena and made politics out of trade and food and damaged the American agricultural industry. If you intend to be the world's leading power, you must not at the same time inflate your currency."

On Oct. 6, 1979, the Federal Reserve adopted a monetarist program for expanding the Nation's

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Council Quiz Teaches Co-ops to Kansas FFA

The Kansas Cooperative Council has prepared a 100-part test on cooperatives in the Sunflower State. Thus far, plans are to give the test to 700 students in 42 participating schools. Questions in the test were taken from the Agricultural Cooperative Service's "Understanding Your Cooperative" (Cooperative Information Report 6), aimed primarily at postsecondary school students. Joe Lieber, Kansas Council executive vice president, said the council hopes to double or triple the number of schools participating next year.

U.S. Sen. John Melcher

U.S. Trade Ambassador Clayton Yeutter

William E. Carnahan

money stock, "thinking it would bring the inflation rate down to zero. Unfortunately, in bringing the rate down from double to single digit, you incur a penalty. It weighs heaviest on those with the longest lapse time in their production schedule and agriculture was at the end of a whipsaw. Land prices were moving up about twice the rate of inflation. They reached such outlandish levels, land couldn't be transferred from one generation to another."

Angel recalled his father, a Kansas farmer, suggested land prices shouldn't be high. "I couldn't understand why someone with a fair amount of land would want low land prices. He had a very fundamental understanding. Farmers, he said, were not any wealthier having land prices go up, unless they wanted to sell it. But he wanted to keep it for production and income. The land doesn't make any more income being up. You just pay more tax. In the move to higher prices, farmers were led to believe it was part of a future program and the period of falling prices would never happen again. They did, with farmers carrying the burden," Angel said.

Monetary policy has one responsibility, he said, "to make sure price levels on most commodities remain constant over time."

Salute to Yuetter

Angel saluted trade ambassador Clayton Yuetter's maneuvers to get others to pursue a free-trade policy. "There is no use for us to unilaterally take gains from free trade if we can't negotiate more free trade and at the same time pursue a very tough bargaining stance with other countries."

Angel sees the U.S. eventually moving to a trade surplus position. "Farming will be nice business to be in in the late 1990s. We will have to pay interest on bonds held by people abroad, so we will have to export more than import. So I don't want anybody to upset the applecart before we do that. As a farmer, I want to do more trading.

"We're trying to help other countries understand their need to expand. Just as Yuetter is negotiating to get reduced trade barriers, it's important for us to get reductions in their discount rates as well as our own. It's not in Japan's interest to become a chronic trade-surplus country. What is Japan going to do with all those dollars? Eventually Japan must give them away like the U.S. did in 1940s to 1950s. I'd just like to see Japan give it to more needy countries." ■

ACS Is Moving to 2121 K Street in Washington

U.S. Department of Agriculture's Agricultural Cooperative Service (ACS) is moving to new quarters at 2121 K Street NW in Washington, DC, near George Washington University. The move from the Auditors Building at 201 14th Street SW is slated for about late-July. The agency staff will be housed on the fifth floor at the new location.

The shift in location should result in only minimal and temporary disruption of agency services to the agricultural cooperative community, according to ACS Administrator Randall Torgerson. All mail will continue to be received at and distributed from a central USDA location near the department's main offices. Requests for publications, mailing list changes, and other correspondence should be addressed to: U.S. Department of Agriculture, *Agricultural Cooperative Service*, Washington, DC 20250. New phone numbers of contact people in the agency will be published in a future edition of ACS' *Farmer Cooperatives* magazine.

Foreign Subsidies, Trading Practices Hit at Co-op Bargaining Conference

Foreign agricultural imports, backed by governmental subsidies and other unfair trading practices, came under severe scrutiny at the 30th National Bargaining Conference in Miami Beach, FL, sponsored by the National Committee of Cooperative Agricultural Bargaining and Marketing Associations.

Regulations governing the use of foreign workers also was discussed by J. Patrick Boyle, legislative assistant for agriculture to Sen. Pete Wilson (CA). He said a program introduced as an amendment to an immigration bill would permit foreign workers to enter the U.S. on a temporary basis to work only in perishable agriculture as a supplement to the historically inadequate number of domestic workers.

This is essential to ensure the timely harvest of the more than 200 different types of perishable commodities grown nationwide," he said. Annual production of U.S. fruits and vegetables is valued at $23 billion and grown on more than 53,000 farms in every State in the union, Boyle said. Ninety percent of these farms are small family operations of less than 200 acres.

"Unlike producers of wheat, corn, and other feed grains, these farms are not large operations where mechanical harvesters can be used during peak harvest times. To the contrary, the vast majority of fresh fruits and vegetables must be harvested by hand, thereby requiring a large number of workers on a short notice."

He said a well-constructed immigration reform package should not force U.S. farmers "to choose between hiring illegals or losing a crop—especially at a time when American agriculture is already reeling from precipitous declines in land values, commodity prices, and export sales."

George A. Martin

ACS Public Affairs Specialist

Boyle said the amendment requires foreign workers to notify the Justice Department within 72 hours after each worker enters or leaves their employment. In addition, he said, the workers have sufficient incentive to return home after employment because growers are required to withhold 20 percent of gross wages for the U.S. to deposit in an escrow account in the worker's home country. This money must be claimed by the worker, in person, within 30 days after the expiration of his temporary visa or it will be forfeited.

"Their temporary visas would restrict them to employment in perishable agriculture, and they must remain continuously employed in this agricultural sector during the length of their visas or return to the country of their origin within 30 days of their last job," he said. The amendment "accrues to the benefit of farmers, workers, and consumers alike. It will preserve a vital sector of American agriculture and thousands of related jobs, both union and nonunion. . .and will not cost the American taxpayer a single cent."

Complex Trade Barriers

Turning to trade barriers to U.S. exports, Boyle said they rightly deserve the extensive public, legislative, and media criticism they have attracted. We are all aware of the examples of prohibitively high tariffs and restrictive import quotas other nations have erected against a variety of U.S. exports. In addition to these barriers, however, there exist many other technical and administrative ones, which, although less glamorous than other 'front page' trade issues, are equally harmful to the industries whose exports are denied access."

Boyle cites cases where, for example, Japanese and Korean agricultural officials place quarantines on certain U.S. horticultural products because they claim fear of insect infestations. Yet, they continue to ban those products even after USDA scientists have proved the products they ban aren't even hosts to the insects they fear. At the same time, we permit them to export products to this country that have been sprayed with chemicals we don't allow to be used in this country.

"I can only conclude Japan is refusing to consider our technical proposals because Japanese farmers will protest an increase in agricultural imports, not because Japanese scientists are worried about wholesome fruit imports. Until these matters are resolved, he said, "Sen. Wilson has told both U.S. and Japanese officials the Japanese farmers should incur the loss of $32 million worth of mandarin orange and pear sales in the United States."

Boyle also discussed another Wilson amendment known as "Fair Access to Foreign Markets Act," which would require the President to ensure a prompt and satisfactory resolution of all Section 301 complaints regarding subsidies and discriminatory tariffs of the European Economic Community (EEC) have been filed by U.S. exporters of citrus, canned fruit, poultry, and wheat flour, and which are pending before the General Tariff and Trade Agreement (GATT) organization.

He said the amendment was offered as a fair and pragmatic remedy to the agricultural trade disputes damaging trade relations with EEC over the years because it will strengthen the President's ability to solve these cases.

"This amendment also convinces our trading partners we will not hesitate to seek alternatives and, if necessary, unilateral solutions when both GATT dispute-settlement and bilateral negotiations fail to provide fair restitution to the American industries placed at a competitive disadvantage by unfair EEC trade practices," he said.

By eliminating the underlying tensions caused by these trade disputes, he added, U.S. and EEC can work to improve our bilateral trade relationship, break down barriers to trade, and revitalize the GATT settlement process.

Boyle cited a number of EEC trade abuses and concluded, "The United States, in an act of good faith, suspended the increase in pasta tariffs in July (1985) because of EEC's express promise to accommodate our requests on citrus. Rather than using the summer months to abide by their agreement, EEC officials procrastinated until late October. At that time. they came to the negotiating table with a woefully inadequate proposal our negotiators rightfully rejected.

"...Once these disputes cease to disrupt our bilateral relationships, we and EEC can move forward to reconstruct an atmosphere of more harmonious trade, a goal our trading partners in the EEC undoubtedly share."

Dorothy Kelly, executive vice president of the Maine Potato Council, told the conferees about her new organization, National Coalition for Fair Trade. "The coalition can help you help yourself," she said.

"We need total commitment to support our actions. The coalition believes in free trade. However, we believe you can't have free trade if it isn't fair. We are not seeking protectionism. We are only asking our Government to help us increase the exports of U.S. specialty commodities and curtail the imports of like commodities."

She said the idea of a coalition came about after her State council had gone before the International Trade Council (ITC) in 1984 with an antidumping petition to restrict the flow of Canadian potatoes into Maine and elsewhere on the East coast.

"Many of the buyers of Canadian potatoes testified before ITC that Canadian potatoes were of better quality than Maine potatoes. A Prince Edward Island potato doesn't have a redish tint to it because of the sandy soil. However, I defy anyone to tell the difference between a potato from New Brunswick and one from Maine."

After that, Maine started a promotion called the Maine Bag Program. Potatoes are very closely sized and inspected. They are shipped to market in red, white, and blue bags with the State's name in large letters, she said.

After the program was underway, calls came from persons connected with agriculture in other States asking what they could do to curtail imports affecting their commodities. Hence the idea of a coalition.

During the organizational meeting in May 1985, she said many speakers testified to problems in their States. "A carrot and potato producer from New York State spoke of many subsidies Canada has used to make exports more competitive. However, Canada does not allow New York potatoes and carrots into the country.

"A Florida representative spoke on the problems with tomatoes and other vegetable crops coming in from Mexico. He said the tomato industry had tried unsuccessfully to obtain relief through established methods such as contervailing duty," she said.

Rounding out the conference was a three-member panel discussing recent activities of bargaining associations. They included Wally Wagner, president of the Campbell Tomato Growers Association in Ohio; Kalem Barserian, general manager of the Raisin Bargaining Association in California; and Ronald Schuler, manager (now retired), California Canning Peach Association.

Wagner discussed a boycott (since ended) by the Farm Labor Organizing Committee (FLOC) of growers for Campbell Soup Co. He related how the clergy was aiding FLOC in trying to get a union started while the company was urging growers to accede so the boycott would end. One ballot over union representation for the workers ended inconclusively because of a dispute over voting eligibility.

Barserian said raisin growers formed the Raisin Bargaining Association in 1966 after taking a "shellacking" on their product, the price of which was determined on an open contract.

"Since then, he said, "the association has come a long way from being just a straight-out bargaining association. The association, with the rest of the industry, is involved in every issue you can imagine."

He cited a number of trade, marketing, and lobbying groups the association has joined or has allied with saying he "basically believes in the squeaky wheel theory." Some of the association's lobbying efforts have paid off, such as raisins in the Food for Peace Program.

"No one had ever heard of raisins in Food for Peace but we accomplished it. We've sold something like 7,000 tons to that program..."

As manager of two peach bargaining cooperatives, Schuler said the basic philosophy from the boards of directors to him stressed "marketing is the key to successful bargaining." Imports, however, are affecting their East Coast sales, a direct result of the short 1983 peach crop in California. The strong dollar was also a factor, he said.

"But marketing is the key. Now what can we do? We know we have a heavy inventory position staring at us for 1986. June 1 is our magic date—the cutoff date for the marketing year. So we are talking of export programs and also transportation rebates from California to the East Coast." ■

Computer Program Organizes Costs For Efficient Bulk Milk Routes

Two new microcomputer programs have been developed to aid dairy cooperatives and their bulk milk haulers by Cornell University in conjunction with USDA's Agricultural Cooperative Service (ACS). Both programs are designed to help determine the cost of operating bulk milk routes.

The programs also provide a way to calculate, on a cost-justified basis, appropriate charges to producers and payments to haulers.

Raw milk assembly is an important marketing system function for delivering fluid milk and dairy products from farms to consumers. Many changes in recent years have affected these operations. Dairy production has become consolidated on fewer and larger farms. Small dairy cooperatives have been consolidated into larger regional ones and smaller inefficient plants closed. Raw milk is often hauled much further because of the declining number of dairy farms and growing distance between them.

However, bulk milk hauling has become more efficient with the advent of tractor trailers and larger capacity transport tanks. Producer charges for milk hauling from farm to processing plant, however, continue to represent a principal off-farm cost for dairy operators. In many areas, the prevailing hauling rate structure still reflects the old can-route relationships, rather than costs associated with today's specialized bulk milk trucks.

In many parts of the country, the dairy industry depends on independent contract haulers to fulfill the assembly function. Hauling rates are generally negotiated between farmer cooperatives or farmers themselves and haulers based on the costs involved in the assembly operation.

Thomas H. Stafford
ACS Agricultural Economist

All too often, however, only incomplete information is available to both haulers and cooperatives or farmers in the negotiation process. For example, due to inadequate records, haulers may have incomplete information on individual route operating costs. This may be a particular problem where two or more routes are operated with different trucks under differing conditions.

Increased prices of items used in hauling (fuel, tires, labor, trucks, tanks) frequently lead haulers to request higher rates without accurate analysis of how these price changes affect actual route operating costs. Yet, changing input costs make improved truck productivity and sound business management crucial for the survival of many independent contract haulers.

Basis for Paying Haulers

Cooperatives frequently have even less information than haulers on milk assembly costs. Cooperatives often deal with two or more haulers and their different expenses. Costs can vary depending on the number and size of farm pickups, geographic terrain of the route, density of farms, distance to market, and many other factors.

Cooperatives are challenged to pay haulers adequately and often uniformly. At the same time, cooperatives also must devise a fee system to accurately reflect the cost of assembling milk. Costs and payments may vary across routes and not be uniform among all haulers.

These and other problems make it difficult to negotiate ratemaking systems and hauling rates fair to haulers, producers, and cooperatives. Cornell University's computer programs offer a framework to help haulers and cooperatives develop a cost-based charge and rate system for milk assembly.

The Hauling Cost Analysis Program performs several related computations: (1) Route-by-route costs for owned or leased equipment; (2) Schedule of hauler payments based on costs incurred. Payment schedule is based on mileage, time, and volume hauled; (3) Producer charges related to the costs of transporting milk from farm to plant—costs of assembly, transport, on-farm, and general overhead (time for waiting, washing, etc.)—are charged on a cost-justified basis; and (4) Pool charges including payments for zones of 10-mile increments.

The Truck Maintenance Records Program helps monitor truck maintenance costs. Earlier experience with route cost analyses indicated truck maintenance cost data were scarce. This was particularly true of the smaller operator, who in addition to driving, is responsible for management and recordkeeping. Repair records were frequently sketchy to nonexistent. Yet repair and maintenance costs may constitute up to 40 percent of the variable mileage costs in a milk hauling operation.

The program offers a simplified way to record and compile individual expenditures for up to 99 trucks and 99 trailers or tanks. Data from this program are intended to help management of the individual trucks or fleet, including assistance in replacement decisions, as well as for use in the Hauling Cost Analysis Program.

The Mid-States Region of Associated Milk Producers, Inc. (AMPI), tested the program on a small scale for possible larger application. AMPI compared costs of several different type of routes. For example, for 7 routes in the area of Madison, WI, the total cost of hauling bulk milk ranged from $0.29 to $0.56, averaging $0.35 per hundredweight (cwt.) of milk. This data should be useful to AMPI in future negotiations with contract haulers.

Model for Tomorrow's Cooperatives Operating in Today's Dairy Industry

Editor's Note: How close are we to the cooperative of the future? In a recent article in Farmer Cooperative's magazine, Dr. Randall E. Torgerson, ACS Administrator, raised some basic questions about the cooperative of the future and member role relationships. He saw cooperatives playing a coordination role to assure members' survival and providing a market for their farm production. As we look at the cooperative system today, major elements of a future model cooperative may already be in place in our dairy industry.

The cooperative of the future will coordinate members' production with marketing and become a partner in their decision processes. Such a relationship would be a considerable evolvement from the original objective of producer cooperation to consolidate and market the production of numerous independent units. How far have we progressed toward the cooperative of the future? Are we well on the way or just beginning.

John Mengel
ACS Agricultural Economist

The answer varies by commodity, but the evolution of cooperatives in the dairy industry is well on its way.

In 1980, about 79 percent of the grade A milk and 77 of all milk was marketed through 435 dairy cooperatives. They ranged in size from small bargaining cooperatives representing only a few farmers to large multi-regional operating cooperatives with tens of thousands of members.

In many areas of the country, and in various ways, dairy cooperatives are attempting to coordinate milk production with market needs. Cooperative policies and actions are directly and indirectly interjecting themselves into production decisions traditionally left to individual farmers.

Results have been favorable, brought needed changes more quickly, and put more money in the dairy farmers' pocket by reducing costs whether directly to the farmers or indirectly through their cooperatives.

Advancement comes with control. In those areas where dairy farmers have drawn together to form a strong, dominant, and progressive cooperative, new ideas and programs can be more easily instituted.

Co-ops Are Problem Solvers

Examples abound where cooperatives have taken the lead to solve issues. Many solutions affect members' production decisions.

In early 1981, overproduction by dairy farmers was raising cooperatives' costs for disposing of surplus and therefore lowering milk prices to members. One cooperative in the Southeast initiated a short-term cull-cow program to quickly reduce milk production during the spring flush and cut expensive costs of transporting surplus milk.

All members contributed to paying for the program and benefited from the reduced costs. Also, milk prices in the market were perhaps more stable and higher than otherwise

---

Before the test, AMPI had begun studying reorganization of its routes to improve their efficiency. The Cornell-developed programs gave AMPI insights into costs for different type routes. Given these insights, it is easier to see where to make changes. Also, the Hauling Cost Analysis Program can be rerun on the proposed reorganized routes to verify anticipated efficiencies.

Use in Computer Systems

For cooperatives with computer systems, both Cornell programs are written in MS Advanced BASIC for the IBM personal computers. At least 48K of memory (RAM) and one disk drive are required. Either IBM DOS or MS DOS form of the operating system is acceptable. The programs also function without alteration on some compatibles using MS DOS and MS Advanced BASIC.

However, the program doesn't function as supplied on all computer equipment claiming IBM compatibility. A copy of the listing is provided with the program so modifications may be made more easily.

The programs are being distributed for ACS by Cornell University. The programs are not copyrighted and may be reproduced legally. Programs with documentation cost $25 each including postage. Send prepaid orders and specify brand of computer being used to: NRAES, Riley-Robb Hall, Cornell University, Ithaca, NY 14853. Send checks and invoices to Cornell University. When ordering, specify Hauling Cost Analysis and/or Truck Maintenance Records program.

For a free copy of publications describing the computer programs in more detail and/or the concepts behind cost-justified hauling, write: Agricultural Cooperative Service, Room 3405 Auditors Bldg., 201 14th Street, S.W., Washington, D.C. 20250. Request "Bulk Milk Hauling Microcomputer Software Available from Cornell University" and/or "A Cost-Based Rate System for Bulk Milk Assembly."

would have been the case, thus benefiting all producers on the market—members of the cooperative with the program, members of other cooperatives, and nonmembers.

The cull-cow program represented use of a positive incentive to change members' production decisions to match market needs for the benefit of all.

The following year, the same Southeast cooperative again faced with mounting seasonal surplus, instituted a quota program. Each member was issued a quota to cover deliveries during the flush production months. Members received the regular cooperative pay price for deliveries of quota milk. Deliveries above quota received a payment of only $10 per hundredweight (cwt)—about $3 less than the regular pay price. Producers who expanded in the face of surplus production were required to bear the cost of its disposal. Those who produced at quota levels were not harmed by the additional costs of disposing of others' surplus.

Other cooperatives have instituted base-quota programs on a continuing basis. Objectives of such programs can differ. For some, the objective may be to limit total production of milk. For others, it may be to adjust seasonal milk production to make it closely attuned to market demands.

Such programs may be conducted either with positive or negative incentives, or a combination of both. The reason for such programs is to increase producer returns per hundredweight of milk marketed by balancing supply more closely with demand. This has the effect of increasing the price of each hundredweight sold and reducing costs of handling surplus.

Example in Northwest

A major Northwest cooperative recently presented its membership with the option of building a new processing plant to handle surplus milk production at a cost of about $30 million or implementing a supply management program.

The program provided producers a fair base, but placed a harsh economic penalty on production above base—about $10 per cwt. Producers overwhelmingly chose to implement the supply management program.

There are numerous other examples of cooperative policies and programs having an impact on member production decisions. Quality premiums encourage members to spend both additional time and money to improve the quality of raw milk. Additional cooperative net margins from additional product yields are returned to those members whose high-quality milk generates those margins. On the reverse side, members whose contaminated milk deliveries cost the cooperative money are penalized.

Beyond the necessity of equal returns to those supplying a common market, such programs recognize those members who contribute more to the profitability of the cooperative and those whose actions have a negative impact on all.

Some cooperatives have instituted conponent-pricing programs where it can be demonstrated the milk composition affects cooperative returns. Such programs are tied almost exclusively to the cheese-processing segment of the industry. Additional solids in milk increase product yield and reduce the cost of extracting the water component. Paying for additional solids has encouraged member-producers to breed for additional solids in milk rather than just additional volume.

Milk hauling is another long-time producer decision now often made with cooperative input. In some instances, the hauling decision has been assumed by the cooperative. The recognition by members of the potential for significant cost reductions through a coordinated system of raw milk assembly and delivery has convinced producers to accept cooperative interference in hauling decisions.

Where cooperatives have assumed complete responsibility for hauling, the impact on members is greatest in both reduced costs and enhanced producer returns. Cooperative-assigned routes have caused members to invest in larger bulk tanks to minimize the number of pickups, install standard and larger valves on bulk tanks to reduce time per pickup stop, provide more space in the yard to accommodate larger trucks, and even alter herd milking time for more efficient routing of trucks. The savings available, however, have been great enough and members benefited when such programs were implemented.

These are some examples of how dairy cooperatives are becoming involved in many decisions not long ago considered solely in the producer's domain. And with many cooperatives providing production supplies, insurance, and productivity information, the partnership between members and their cooperative grows stronger with each passing day.

So, it becomes quite evident we have a good operating model already in place in our dairy industry for use as a pattern in developing the cooperative of the future in many other agricultural commodities. ■

PEOPLE NEWS

Walter F. Payne...

California Almond Growers Exchange's vice president of sales and marketing, is one of five individuals recently named to serve a 2-year term on the California State World Trade Commission.

Daniel C. Schultz...

17-year member of National Grape Cooperative Association, Inc., from Buchanan, MI, has been elected to the Welch Foods board of directors by the national board. He replaces Kermit Dorsey of Prosser, WA, who served since 1972. Schultz is managing partner of Quad Farms with 433 acres of Concords, all under contract to National. He has also been a director of National since 1981.

At Ag Processing, Inc...

Urban Knobbe, manager of Farmers Cooperative Company of Farnhamville, IA, has been elected chairman of the board.

Jennifer M. Mathis...

Fresno, CA, was named president and general manager of Valley Fig Growers, according to board chairman Robert McAuley. Mathis is responsible for all aspects of Valley Fig operations, including grower relations, plant operations, and marketing. She also will serve as a senior vice-president of Sun-Diamond Growers of California, the marketing agency for Valley Fig Growers, Diamond Walnut Growers, Sun-Maid Growers of California, Sunsweet Growers and Hazelnut Growers of Oregon. Mathis first joined the company as secretary-treasurer and controller in 1977, and in 1984 was appointed vice-president of operations. Mathis also serves on both the executive and advertising committees of the California Dried Fig Advisory Board.

Fred R. Zimmerman...

former director of program expansion for the U.S. Feed Grains Council, has been appointed director of communications for the National Cooperative Business Association (NCBA) in Washington, DC. He will be part of the newly established government, public, and member relations division headed by Ms. Nancy Kantola. Zimmerman will be responsible for publications and general support to the NCBA staff. This will include the introduction of some new publications and media information systems.

Michael Sadler...

is Farmland Industries executive director for gas products plants, succeeding Kenneth Harrald who recently was appointed manager of the refining division. Sadler will be responsible for operations of the gas plants administration from offices in Tulsa.

Gerald L. Roadcap...

is the new vice-president of human resources development at Dairymen, Inc. in Louisville. He had been director of the division and will now assume additional responsibilities. He's been with Dairymen since 1979.

Thomas Lyon...

former chairman of the Wisconsin Federation of Cooperatives and general manager of 21st Century Genetics Cooperative at Shawano, WI, has been named to a 7-year term on the University of Wisconsin Board of Regents by Gov. Anthony Earl. Last year, Lyon served on the governor's Strategic Development Commission and the Wisconsin Dairy Task Force. It made long-term recommendations for improving the State's dairy industry. Lyon continues as a director of the cooperative federation.

At American Institute of Cooperation...

President David C. Thomas has announced appointment of David W. Simpson as vice president, education administration. Simpson, a member of the AIC staff since 1979, has been responsible for youth education, educational materials development, audio-visual services, and special projects. Thomas called Simpson's appointment "a key first step in putting together an aggressive management team necessary for AIC to fulfill its mission as a cooperative center for excellence."

At Baltimore Farm Credit Banks...

E. McDonald Berryman, Elberon, VA, has been elected to the district board by the Federal Land Bank Associations to fill the unexpired term of Harold K. Bailey who died last October. Berryman's farm operation includes 250 acres of peanuts, 350 acres of corn, 500 acres of small grain and soybeans, and a 200-sow hog operation. He is past president of the FLBA at Waverly and former director of the Viriginia-Carolina Peanut Association. He is a director of Farmers United, Inc. and Southern States Cooperative.

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Will Statesmanship Solve Grain Local Versus Regional Conflict?

Can the changing times in cooperative grain marketing and difficult choices ahead be solved by statesmanship and leadership from within the ranks? Bill Allen, general manager of Union Equity Cooperative Exchange at Enid, OK, offered his perspective of some industry conflicts in his editorial in a recent issue of *Equity News*, the co-op's magazine.

"Today, in several parts of our trade area," he said, "we see a number of local cooperatives in trouble. Facilities and services added in the go-go days of the 1970s are in excess now and little can be done in the short run to reduce fixed or non-controllable expenses such as interest and depreciation.

"Simultaneously, lower sales volumes have reduced the level of gross margins available to defray those expenses.

"Unfortunately, the reaction to those problems all too often has been heightening competition between cooperatives. I don't see anyone being a winner in that kind of struggle, unless it's the noncooperative competitors...waiting for the co-ops to eliminate each other so they can step in and pick up the juciest pieces at bargain-basement prices.

"In recent months, we've seen another development increasing in frequency, joint ventures between cooperatives and proprietary firms. Such ventures are not new...the potential impact...on the future of cooperative grain marketing could be substantial. At this point, the jury is still out.

"...In some cases, there are sound business reasons why competing cooperatives can't get together in a merger, joint venture, or other beneficial arrangement. The reasons often involve non-business factors such as local pride, perceived loss of local identity, past community rivalries, and fear by local directors and managers of losing their positions.

"A weakening of the local cooperative system sooner or later will have an impact on the regional. Other forces at work today also could affect the future of cooperative grain marketing.

"Will locals growing through merger or working together in joint marketing ventures of one kind or another decide to bypass their existing regional structure in marketing their grain? That's a question affecting all of us.

"From my view...the regional organization is necessary to properly handle and market the large volume of grain to meet market demands and to operate the facilities efficiently, including export terminals, necessary in the total marketing process.

"But we are seeing instances... (where) mini-regionals or superlocals could wind up competing with their regional organization in common markets. This means, of course, they would be competing against themselves, and no matter who wins, they also lose.

"So...how does the local cooperative do what has to be done to survive and meet members' needs in the short run without in the longer run undermining other parts of the cooperative structure in which the local also has a major financial stake?

"Resolving these and similar questions requires the ultimate in cooperative leadership and statesmanship. Even more important, it requires a willingness to accept change as a fact of life; not change hastily decided on and implemented, but change nonetheless.

"It's human nature to resist change. But in the best long-run interests of our cooperative organizations, we simply have to get more comfortable dealing with it. If we don't, I fear the ability of cooperatives to survive is in serious jeopardy. I hope all of us will continue to be able to work together to find the answers needed not only to deal with change, but also to direct it toward the goal of assuring a future for cooperatives and their ability to meet the producer's needs."

Farmer COOPERATIVES

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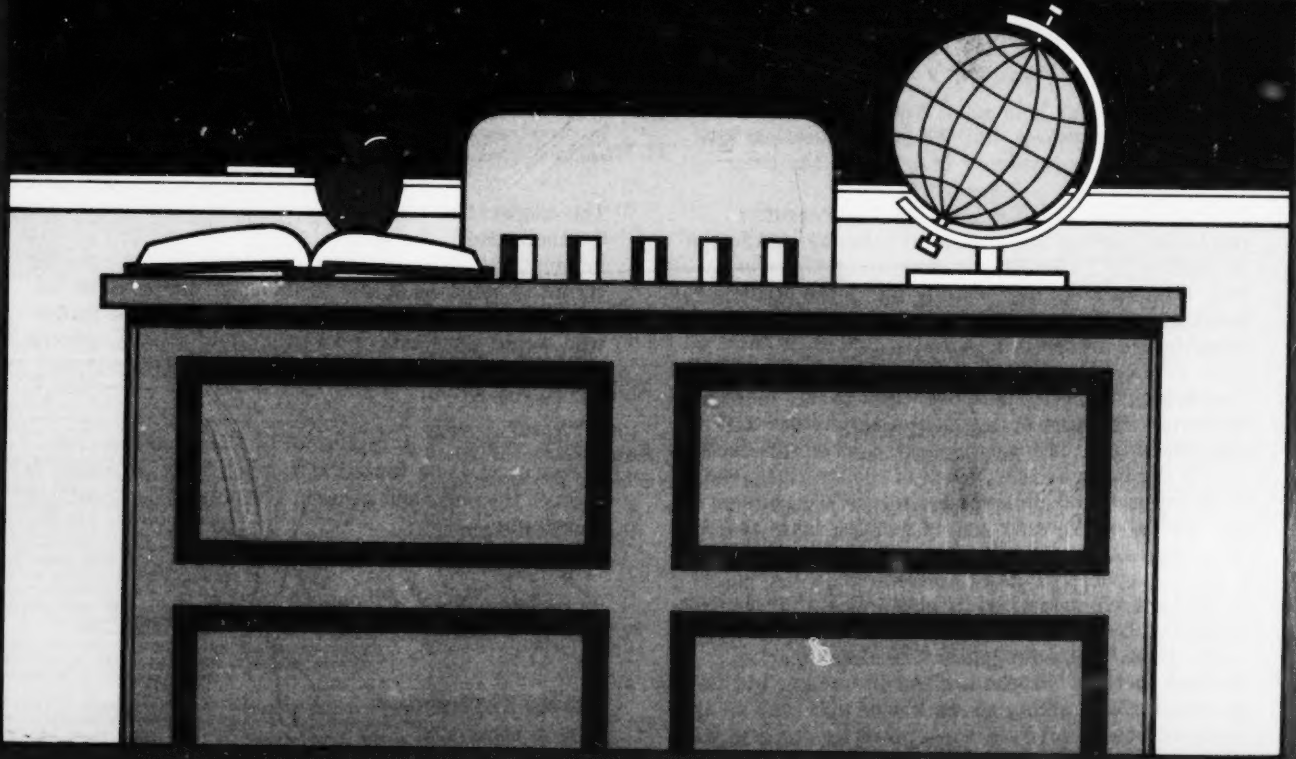
August 1986

United States Department of Agriculture/Agricultural Cooperative Service

Need for Cooperative Education Strong, But Opinions Differ on Provider Roles



Are Cooperatives Unworkable and Have No Future?

At a recent meeting, a rhetorical question was asked to which every cooperative leader should have a ready response. Simply stated it was: How do you respond to the statement that "the cooperative is an unworkable form of business that has no future?"

This statement is being made in certain areas of the country where cooperatives have engaged in faulty business practices, or have succumbed to the ravages of the agricultural depression.

Does it mean farmers can't control their off-farm businesses? Does the financial condition of agriculture not permit growers to sustain investments beyond the fence line? Have structural conditions and competition changed so cooperatives are no longer needed to fend for producers' interests?

Have relations with owner-users changed so much members view their cooperative as just another business? Or, has the educational process slipped so producers and employees no longer understand the basics of cooperation and how to recognize benefits of operations?

Each element may hold some truth depending on individual circumstances, but the larger question must be answered. Cooperatives' image is on the line.

As Russ Hanlin, Sunkist Growers' top executive, points out, certain forms of production by syndicates or publicly held companies take market share away from cooperatives. He correctly infers the structure of production agriculture has a lot to do with cooperatives' future presence in markets.

Cooperative leaders, therefore, need to pay more attention to structure of production agriculture and policies affecting it. The independently driven production unit is the basic building block of cooperatives, the off-farm extension of the farm business. Cooperatives are *not* neutral on the structure of farming issue as some have argued.

A fundamental structural rationale exists for cooperatives. Producers are many in number although relatively small in size compared with other market channel participants who are few in number but large in size. Without ability to market or purchase on an organized basis, producers are powerless to deal with growing firms as characterized by mega mergers in the food industry, larger market shares, more diversification in product lines, and greater vertical integration of operations.

Furthermore, mass markets require producers to coordinate marketings to achieve standardization and efficiency in meeting consumer demands. The gap in market power between producers and noncooperative buyers has widened since the Capper-Volstead Act was enacted in 1922. Changing market structure, therefore, remains today a major underlying rationale for cooperative efforts by farm operators.

Cooperatives exist to penetrate markets and maximize returns to members. They cannot perform successfully if members "use" cooperatives to play them against other businesses. As one cooperative banker recently put it, "The worst reason for a cooperative to exist is to provide competition," meaning to use them when it's convenient and not otherwise in a buy-sell system.

Cooperatives are needed today. Many examples of successful organizations can be found where they are pacesetters in their respective industries. These cooperatives have identified marketing system trends in their respective areas and have adapted their operations to them.

The cooperative community is challenged to account for their reason for being and redouble efforts in communicating this to farm constituencies and the public. Initiative must be seized to minimize the adverse impact of faulty practices in a few instances and people who would seize this opportunity to discredit cooperatives by raising doubts about their effectiveness and future role.

Image counts. It is supported by performance. Successes need to be touted and deficiencies corrected to project the solid and reliable instrument cooperatives represent.

Randall Torgerson

Randall E. Torgerson
ACS Administrator

Farmer COOPERATIVES

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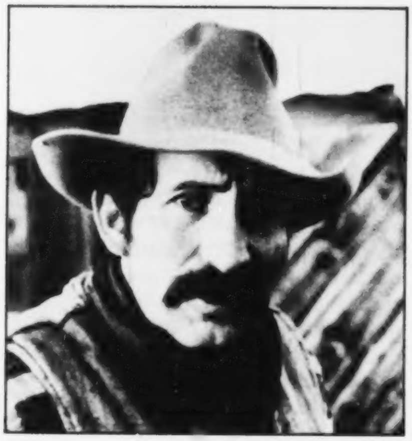

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Richard E. Lyng
Secretary of Agriculture

Alan T. Tracy
Actg. Assistant Secretary
Marketing and Inspection Services

Randall E. Torgerson
Administrator

Gene Ingalsbe
Director of Information

Patrick Duffey
Editor

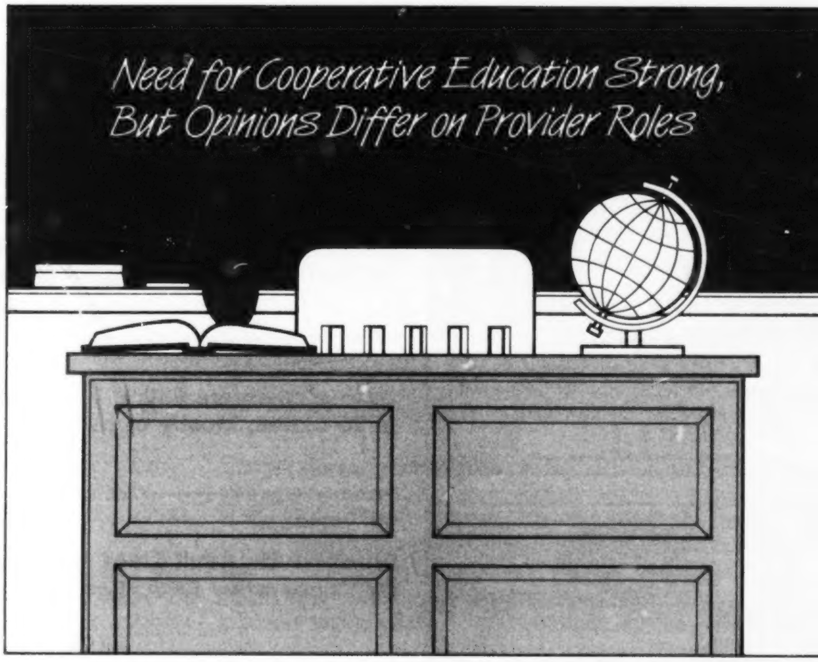
Peter Manzelli
Technical Director

George Martin
Assistant Editor

Production Staff:
Deborah Cooper
Patricia Burns
Deborah Thornsbury

Need for Cooperative Education Strong, But Opinions Differ on Provider Roles

Editor's Note: This article was derived from ACS Service Report 16, Cooperative Education Needs. American Institute of Coperation (AIC) and USDA's Agricultural Cooperative Service (ACS) cooperated on the study. Copies may be obtained from AIC or ACS. Since the survey was taken, AIC has had a management change and President David Thomas has already introduced some of the recommendations.



While there is a role for all to play and the need is strong, opinions differ within the ranks of organizations serving cooperatives in the United States and cooperatives themselves as to who should provide education and to what audiences. Some of those who responded to a national survey seemed to misunderstand the purpose of primary organizations involved in cooperative education—AIC, ACS, Extension Service, and State councils.

An effort is needed to close these gaps of misunderstanding to facilitate future planning and education. Respondents also felt local and regional cooperatives should be educating particular audiences.

Seventeen Target Audiences Identified for Education

Of 17 target audiences identified for cooperative education, cooperatives ranked young farmers, legislators, directors, members, employees, managers, prospective members, and media as highest priority. Other audiences cited were county extension agents, university extension and research personnel, high school educators and students, the general public, postsecondary, high school, and grade school students and educators.

Legislators were given high priority for cooperative education because of concerns by farm credit and the large marketing and farm supply cooperatives. Evidently they believe legislators need more cooperative education than other target audiences including their members and/or employees. The need to have legislators understand their concerns could also reflect the tough economic times many of these cooperatives were facing at the time of the study and respondents' beliefs legislators may be able to help.

Many decisions affecting farm credit cooperatives may be made or influenced by legislators and other external audiences. The impact of those decisions would be more immediate than for other target audiences. It seems, therefore, cooperative educators could create an important climate for cooperatives by providing legislators with a basic understanding and appreciation of cooperative businesses. Support for cooperative education activities will be enhanced if cooperative leaders perceive education activities have had a positive impact in the legislative area.

Rankings of target audiences for cooperative education by selected cooperatives (groups), size, and location were quite different. These differences make it extremely difficult for AIC to develop general cooperative education programs and activities to meet the needs of all cooperatives. It suggests the establishment of specific programs tailored to specific audiences.

Regional and local cooperatives, State cooperative organizations, and AIC should be major providers of cooperative education to many of

Charles A. Kraenzle
Director
ACS Co-op Mgt. Division

the 17 target audiences. ACS and Extension Service should be major providers of cooperative education mainly to external audiences such as university personnel, legislators, county extension agents, and media. Smaller cooperatives believed ACS should be a major provider of education to legislators and media, but larger cooperatives didn't agree, possibly because they may have a broader knowledge and understanding of ACS's mission as a Federal agency.

AIC's Goals Need More Defining, Clarification

AIC should more clearly define its primary goals and publicize them to its membership. A further need is to explain the organizational responsibilities of AIC, State cooperative councils, and ACS.

Sixty percent of AIC's listed activities were considered very important. However, some significant differences existed in the priority each group gave them. State councils, for instance, put greater priority on AIC developing educational materials, and being a central clearinghouse for educational and training materials, general communications, and the AIC yearbook, an indication of needs of the State councils.

AIC's programs emphasize activities given high priority in its long-range plan. However, youth education received more attention from AIC than the study seemed to substantiate. Although respondents ranked grade and high school students lower than other audiences, it didn't necessarily mean the audience was unimportant.

While a majority of respondents believed AIC's programs and activities needed some changes, nearly 44 percent believed they did a satisfactory job. Eighty-two percent of the largest cooperatives favored some changes. Nearly one-third of all respondents (80 percent of electric cooperatives) believed programs should be directed to all types of cooperatives. Nearly 45 percent of all respondents believed programs should focus on general cooperative practices, principles, and issues.

AIC Must Make Best Use Of Limited Resources

AIC devotes a lot of resources to the annual yearbook, *American Cooperation*, but only State councils and federated cooperatives identified it as very important. Yet, some considered development and distribution of other educational materials by AIC much more important. AIC should evaluate need and use of the yearbook if it is to be continued.

Those surveyed believed educational materials were the preferred methodology for AIC. Noting the strong preference, AIC should concentrate on being a developer, wholesaler, and distributor of materials to support those providing cooperative education like cooperatives, State councils, and other groups.

At the moment, USDA's ACS is the largest distributor of educational materials, so a clear understanding of each organization's role should be developed. Future Government decisions on user fees for publications may dramatically affect the role of each organization.

In the program area, AIC's current offerings seemed to adequately meet the expressed needs. The low support for consulting services as a delivery method seemed to contradict respondents' desires for AIC to be a coordinator. It suggested they weren't familiar with terminology used in the questionnaire.

National Master Plan Needed for Co-op Education

At the heart of the matter is making the best use of limited resources. Cooperative leaders and educators should evaluate the findings of this study and identify who is providing cooperative education to what target audiences. A national master plan for cooperative education should be developed with related programs and activities to better meet the needs of different types and sizes of cooperatives in various locations.

AIC should be the catalyst in developing the plan and coordinating programs and activities of all organizations involved toward efficiently and effectively meeting educational needs.

The study provides a clearer understanding of the ways agricultural cooperatives viewed education. It also establishes a base for planning future education programs and helps identify further areas for cooperative education research. Future national planning should center on identifying current educational programs and areas where needs still exist.

Cooperative Groups Identify Role of Organizations

Marketing and farm supply cooperatives ranked young farmers, directors, members, managers, employees, and legislators as highest priority target audiences for cooperative education. Credit cooperatives gave legislators, young farmers, and prospective members highest priority. Employees, members, and legislators were ranked highest for electric cooperatives with State cooperative councils adding high school students. Cooperatives serving different groups and those with different organizational structures gave the same audiences somewhat different priorities.

Fifteen of the 17 target audiences listed fell within high and medium priority for cooperative education. Smaller cooperatives identified young farmers, medium cooperatives cited members, and large cooperatives ranked legislators highest priority. Young farmers were ranked highest in 8 of 12 farm credit districts.

Respondents identified regional and local cooperatives (in some cases themselves) as major or minor providers of education to all target audiences. All selected groups identified them as major providers of education to members, directors, young farmers, employees, prospective members, managers, media, and legislators. All groups identified members as a high priority audience for cooperative education but electric cooperatives and State councils gave highest priority to employees.

Respondents in each farm credit district believed cooperatives should be major providers of education to members, directors, employees, young farmers, prospective members, managers, and media.

State cooperative organizations also have a role in providing education to target audiences. Most selected groups identified legislators as their highest priority audience. Electric cooperatives, however, ranked managers, media, and directors higher than legislators and State councils and mixed-structure cooperatives ranked young farmers higher.

Respondents in each size category identified legislators as the primary target audience for cooperative education by State cooperative organizations. The largest cooperatives gave more weight to State organizations educating county extension agents, postsecondary and grade school educators and students than did smaller cooperatives.

Respondents in most farm credit districts saw legislators as their highest priority target audience. Two districts identified young farmers and two others ranked managers. Respondents in every district believed State cooperative organizations should be major providers of education to legislators, young farmers, media, directors, and managers.

All respondents believed AIC should be a major provider of education to media, legislators, university extension and research personnel, managers, young farmers, and the general public. Credit cooperatives gave less emphasis to AIC educating young farmers and general public than marketing and farm supply cooperatives. Electric cooperatives believed AIC should give more emphasis to educating county extension agents and high school educators and less to legislators than did marketing and farm supply and credit cooperatives. State councils gave university extension and research personnel highest priority and legislators lowest. Mixed structure cooperatives identified the general public as AIC's prime audience.

Cooperatives with sales below $250 million identified media, university extension and research personnel, and legislators as AIC's most important target audiences. Cooperatives in the $250 to $999.9 million sales range identified legislators, university extension and research personnel, and young farmers as the top audiences. University extension and research personnel, media, and postsecondary educators were rated highest by the largest cooperatives (sales of at least $1 billion).

Responses from farm credit districts varied considerably when viewing AIC's education role. Those in Springfield and Jackson districts gave young farmers highest ranking. Media was placed highest in St. Louis, Omaha, and Sacramento districts. Louisville and Spokane districts gave highest rating to university extension and research personnel while legislators were given highest priority in Columbia, St. Paul, and Texas districts.

All respondents identified ACS as having a major role in educating university extension and research personnel, media, and legislators and a lesser role with remaining target audiences except grade school educators and students.

Marketing and farm supply cooperatives also included county extension agents among their target audiences. Credit cooperatives ranked legislators as first priority for ACS; electric cooperatives identified county extension agents plus managers and young farmers; State councils chose university extension and research personnel, managers, and postsecondary students.

Small cooperatives believed ACS should be the major educator for university extension and research personnel, media, and legislators. The largest cooperatives identified only two audiences—county extension agents and university extension and research personnel and gave ACS much lower priority to educate managers than did smaller cooperatives. Respondents in six farm credit districts believed university extension and research personnel should be highest priority target audience for ACS. Three others stressed legislators.

USDA's Extension Service was identified as the primary educator of county extension agents, university extension and research personnel, and young farmers.

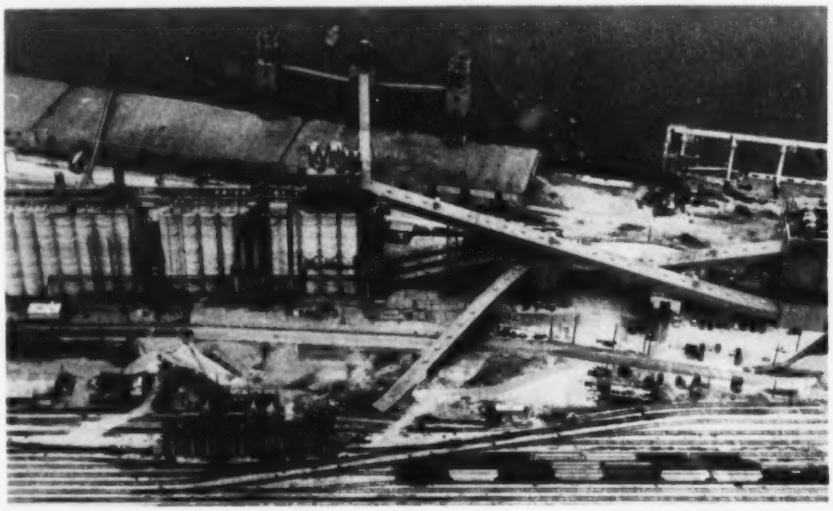
Marketing and farm supply and credit cooperatives followed the pattern of other groups in ranking Extension Service's target audiences. Electric cooperatives thought Extension should be a major provider of education to more target audiences. State councils gave lower priority than other groups to Extension Service educating high school and grade school students and legislators. Mixed structure and marketing cooperatives thought Extension should give major attention to educating the general public.

Cooperatives with sales volume from $10 to $24.9 million also believed Extension Service should be a primary educator of the general public and legislators. Cooperatives in the next larger size category added the general public while the largest cooperatives added high school educators.

Respondents in most farm credit districts believed Extension Service should primarily educate county extension agents, young farmers, and university extension and research personnel. Other districts felt Extension Service should primarily educate the general public.

Most respondents believed promoting cooperatives was AIC's most important activity. State councils saw AIC as a developer of educational materials while the mixed-structure cooperatives thought coordination with State organizations was most important. Respondents in most sales volume groups ($250 to $999.9 million) identified AIC as a central clearinghouse for education and training materials. ■

Galveston Back After $42 Million Facelift



It took a $42 million facelift and modernization program to bring it back to life, but today the Galveston (TX) export elevator now owned by Union Equity Cooperative is considered one of the better rail-to-ship facilities in the United States.

In December of 1977, the Galveston elevator was rocked by a grain dust explosion after being purchased just a few months earlier by Farmers Export Company, an interregional cooperative, from Cook Industries. Subsequently, in 1981, it was sold to FAR-MAR-CO, the grain cooperative marketing subsidiary of Farmland Industries. Union Equity acquired ownership when it purchased FAR-MAR-CO.

A number of safety features have been incorporated into the remodeled facility. Replacing the headhouse and elevating legs are 48- and 54-inch incline belts housed in ventilated walls, limiting dangerous pressure buildups. Also incorporated were 36 dust collectors, open floor grating on all levels and strategically located monitoring devices and sensors in receiving and shipping belts. The devices are controlled and monitored from an ultramodern control room. Most elevator functions can be done from there. An enunciator panel tells when and why something is malfunctioning.

Most grain arrives by rail to Galveston. It takes only 30 seconds to unload a car and two can be emptied at one time. Storage tracks can hold 180 hopper cars. Storage bins on top of the elevator can unload up to 1.3 million bushels a day. The elevator can load up to 80,000 bushels a day with its two outbound shipping belts.

More than 420 cars have been unloaded in a day, the equivalent of 35,000 acres of wheat. The recent downturn in exports has reduced volume through the facility, but permitted Union Equity's 21 employees operating the elevator to initiate a preventive maintenance program.

Ag Diversification Pressuring Co-ops To Reevaluate Practices: Schwendiman

A vision of a "new cooperative" to meet the challenges of increased competition was described to cooperative communicators by Dr. Gary Schwendiman, who considers most current cooperative philosophies outdated.

Speaking of the annual Cooperative Communicators Association meeting in Denver, Schwendiman, dean of the University of Nebraska-Lincoln School of Business Administration, said the wide diversification in agriculture is pressuring cooperatives to change policies because of the tremendous difference in the potential economic impact of various members.

He said cooperatives work best when all members are about the same size in economic impact or about the same income range. However, with the dramatic changes in agriculture have come comparable differences in the relative prosperity of farmer-members. Yet, they must live with the one-member one-vote principle Schwendiman would like to change.

"Cooperatives must move to a system where people have influence according to their economic impact. This is particularly true for larger volume customers whose business the cooperative must retain if it is to survive. Unless these people have a voice in the business proportionate to their economic impact, they are likely to leave the cooperative."

Schwendiman also was critical of the cooperative practice of treating all members the same. "Since cooperatives were founded, the byword has been 'equal.' Everybody gets the same price; everybody pays the same price; everyone is equal.

Facing New Environment

"The new environment forces a new philosophy of 'equitable,' which simply means we deal with people according to economic impact, which in a cooperative, translates to volume."

He told the communicators, "You may say 'equitable' is a violation of the cooperative bible, and I say you must decide whether or not your cooperative is a religion or a business. If it is a business you must interact with people on the basis of their economic impact. If you don't, someone else will, and they (the producers) will no longer be members of your cooperatives."

"One of the greatest challenges facing cooperatives today is many agricultural operations are becoming very large. Many of these people will do direct business with (other) buyers and sellers in the marketplace if the prices are better there than at cooperatives. So cooperatives must make adjustments, adapt, and move from a philosophy of equal to equitable if they are to be successful."

Schwendiman said the many small cooperatives in this country got started because of the large number of farmers who started in agriculture. Economic conditions forcing a reduction in farm numbers and increase in the size of remaining operations affect cooperatives the same way. "The thousands of small cooperatives must decide whether or not to remain small and fail, as they eventually will because they cannot survive in the marketplace. Or will the small cooperative board of directors be willing to give up some tradition and engage in mergers to form larger cooperatives? As the change curve accelerates they must form themselves into larger and larger units to be competitive."

Dr. Gary Schwendiman

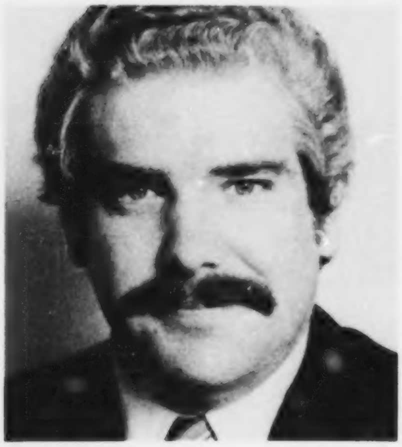
Centralized Policymaking

Schwendiman also was critical of what he saw as decentralized policymaking. He believed it meant "every cooperative does exactly what it wants and in the way it wants. If you are going to be a major force and gain the kind of market share you are capable of commanding, you must give up some of your traditional control at the local level. You must be willing to 'delegate upward' and allow centralized policymaking to enhance the survival of the cooperative based on business principles. It is a difficult principle, but it ties to the principle of rapid change."

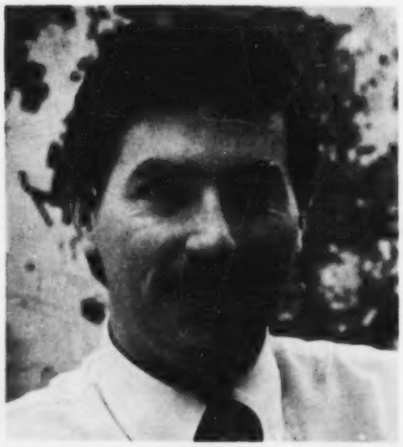
Schwendiman said another outdated practice is decentralized capital management. "When things are stable and there is little change, every local cooperative can have its own pool of capital. To ensure survival of the cooperative in times of rapid change, capital must be centralized

George A. Martin
ACS Pub. Affairs Spec.

Ken Tvedten



John Leatherbury



Jeff Almen

to a greater degree. In a federated system, this means members must invest more in the locals and the locals must invest more in the regional cooperative."

He said cooperative equity across the country was much stronger 7 or 8 years ago than now. An infusion of funds to strengthen cooperatives must come from members themselves and not from banks. "Unless that happens, you will open yourself up to fluctuations in interest rates big enough to bring some cooperatives to their knees."

Schwendiman felt some other areas needed updating:

- organizing cooperatives according to service and marketing needs with overlapping configurations and specialty teams;
- establishing personnel policies to insist on the best in selection and retention;
- hiring employees whose values and work styles are committed to change and the future;
- electing directors who act in the best long-term interest of the organization without regard to reelection or short-term advantage;
- managers and directors spending more time on strategic issues and planning;
- giving greater attention to financial strategies, personnel management, market intelligence, and price risk;
- placing high priority on margins with service as good as it can be while still meeting financial objectives;
- making business decisions to ensure long-term survival of organization; and
- giving full management attention to external competitive factors as well as internal issues. ■

Feed Trials Suggest Limits on Wet Corn Gluten

With the growing use of corn for fructose and fuel alcohol production, livestock producers are seeing more wet corn gluten feed (WCGF) available for animal rations. To determine the nutritional value of this corn byproduct as a replacement for shelled corn in cattle rations, researchers at the FS Feed Research Center, Lexington, IL, recently conducted a feeding trial with 255 yearling cattle. The trial indicated WCGF can be a useful feedstuff, but there is a limit to how much should be used in rations.

During the run of the 98-day trial, researchers found the average daily gain for three groups was similar. However, feed efficiency dropped as the WCGF content increased. "There was a definite statistical difference between the control group (no WCGF) and Group 3 (66 percent WCGF)," said Dr. Steve Sachtleben, research supervisor for the FS Feed Division of GROWMARK, Inc. "We suggest WCGF replace no more than 50 percent of the shelled corn on a dry matter basis."

Top Photos by Co-op Communicators

COMMISSIONER
FREDERICK CORBAN
ADMINISTRATIVE LAW JUDGE
B. CLAY HALL
ADMINISTRATIVE LAW JUDGE
MARK COOPER

Each year, members of Cooperative Communicators' Association compete for photography honors in a multi-category contest. Here are the best of class winners from four major categories in the 1986 contest: (above) Tim Brown, Indiana Rural Electric Cooperatives, "Listening to the Leader," meeting/news; (opposite page, top to bottom) Jim Tucker, Farmland Industries, Inc., "Don Quixote's Windmills," scenic/pictorial; Bob Gibson, National Rural Electric Cooperative Association, "Tom Tomeia," portrait; Tim Brown, Indiana RECs, "Old Style Teaching," feature. Gibson was chosen photographer of the year.

CCA Honors Tvedten, Leatherbury

Ken Tvedten, recently retired director of communications for Land O'Lakes, is the 1986 winner of the H.E. Klinefelter award bestowed every year on a veteran communicator by Cooperative Communicators Association (CCA).

The Michael Graznak award to a communicator under age 35 went to John N. Leatherbury of the Farm Credit Services of Northeast Illinois in Kaneville. Tvedten retired June 1 after 15 years' service with Land O'Lakes. He is a native of Kensal, ND, and a graduate of the University of North Dakota. His cooperative experience prior to joining LOL includes service with Minn-Kota Power Cooperative in Grand Forks and as an executive with a Minneapolis advertising firm that held the LOL account.

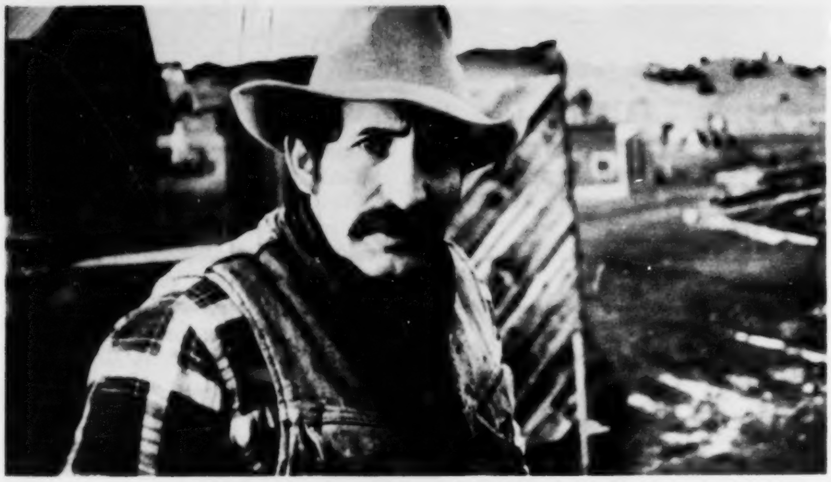
Leatherbury has been director of marketing for the Farm Credit Services since April. He had held communications positions within the Farm Credit System since 1977, the year he graduated with honors from Central Michigan University in Mount Pleasant. He is a native of Sherwood, MI.

The Klinefelter award, established in 1959, was named after one of CCA's founders. The Graznak award was established in 1977 and named after Michael Graznak, a communications employee with Farmland Industries when he died.

This year's writer of the year award went to Mark Prout of Farmland Industries and photographer of the year honors to Bob Gibson of NRECA.

In CCA's officer election, Jeff Almen, manager of publications and information for National Rural Utilities Cooperative Finance Corporation, Washington, DC, was elected president for the coming year; Paul Wesslund, manager of statewide publications services for the National Rural Electric Co-op Association, Washington, vice-president; Shirley Sullivan, senior editor for CF Industries Inc., Long Grove, IL, secretary; and Leatherbury, re-elected treasurer.

New directors are Jon Greeneisen, senior vice president of the Central Bank for Cooperatives, Denver; Jim Tucker, staff editor for Farmland Industries, Kansas City; and Robert Trevis, communications manager for Universal Cooperatives, Minneapolis.



Naden to Retire as VOCA President

Kenneth D. Naden, president of Volunteers in Overseas Cooperative Assistance (VOCA) in Washington, DC, has announced plans to retire next April. Under Naden's direction, VOCA completed a wide variety of projects in Africa, Asia, and Latin American by providing expert volunteers from American cooperatives. These experienced, usually retired, cooperative executives traveled to developing countries to assist local cooperatives with technical and managerial problems.

Naden joined VOCA in 1983 after serving as president of the National Council of Farmer Cooperatives (NCFC) for 20 years. NCFC was one of the original incorporators and members of VOCA and Naden, as NCFC representative, served as chairman of the VOCA board for 12 years. Meanwhile Paul Hebert, VOCA chairman, has appointed a search committee to begin selecting candidates to succeed Naden.

The committee is headed by Charles Dean, president, Cooperative Housing Foundation, and includes Thomas Condit, president, National Cooperative Bank, and Wayne Boutwell, president, NCFC. All are members of the VOCA board. The search committee will present its first report in the fall. Final selection of a new president and chief executive officer is expected in December.

Candidates for the position should have a strong background in international development and good knowledge of cooperative organizations. Resumes may be sent to Mr. Dean's office, care of Susan Erikson, 2501 M Street N.W., Suite 450, Washington, D.C.

Co-ops Generate Billion Dollar Sales In 20 States, Mostly in Upper Midwest

Eighty percent of the total business generated by the Nation's agricultural cooperatives in fiscal 1983 came from 20 States. These States where cooperative sales topped $1 billion, accounted for a total volume of $53.4 billion. These and other conclusions about the financial status of the Nation's agricultural cooperatives were drawn from a survey conducted by USDA's Agricultural Cooperative Service (ACS).

Iowa, California, and Minnesota—the leading billion-dollar States—each had more than $5 billion in cooperative volume. Together, they accounted for almost 25 percent of farmer cooperative business in the United States. The California volume was primarily marketing, while Iowa and Minnesota represented large amounts of farm supply purchases. The marketing and farm supply sales of the 12 billion-dollar States in the North Central region of the country represented more than two-thirds of the billion-dolar State total.

Given the extensive structural change underway in most of these major agricultural States, many cooperatives face the prospect of substantially modifying their operations. Some associations will adjust internally to better serve the growing number of large commercial farmers and smaller part-time operations. Others will consider consolidation with other co-ops to improve efficiency and eliminate intercooperative competition.

The pace of these changes is accelerating. They will require cooperatives to adopt more efficient business practices to maintain and expand their market position. Failure to adapt could have far-reaching effects. It could lead to considerable weakening of cooperatives' overall position in providing farm production supplies and marketing farmers' crops and livestock.

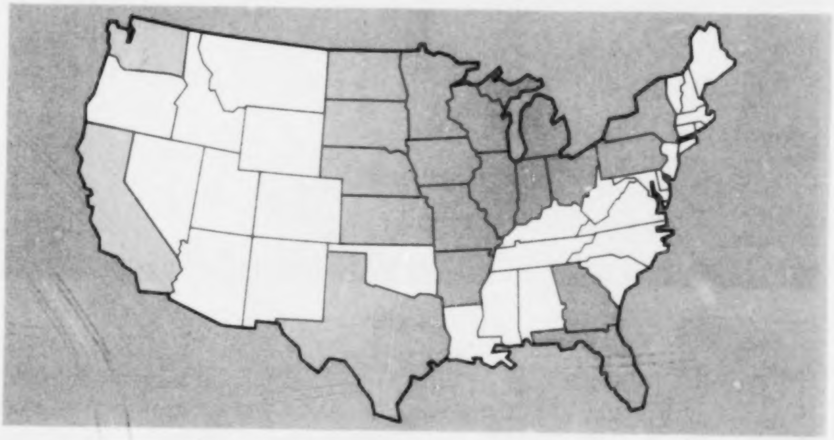


Table 1—States with farmer cooperative business exceeding $1 billion, 1983 ranking

State	Business Volume[1]
	1,000 dollars
1. Iowa	$5,757,965
2. California	5,353,990
3. Minnesota	5,334,798
4. Illinois	4,461,596
5. Wisconsin	4,019,918
6. Ohio	2,642,056
7. Nebraska	2,525,358
8. Kansas	2,522,196
9. Missouri	2,349,073
10. New York	2,273,983
11. Texas	2,083,773
12. Indiana	1,907,614
13. North Dakota	1,878,765
14. Pennsylvania	1,813,924
15. Michigan	1,787,679
16. Washington	1,511,968
17. Florida	1,495,739
18. Georgia	1,258,924
19. South Dakota	1,233,611
20. Arkansas	1,214,883
Total	53,427,813[2]

[1] Net business. Includes farm products marketed, farm supplies purchased, and related services provided. Excludes intercooperative business.

[2] Represents 80 percent of all farmer cooperative business in U.S.

Billion Dollar States

Sales ranged from $1.2 billion in Arkansas to $5.8 billion in Iowa (table 1). The figures included the total farmer cooperative volume originating in each State. Included were farm products marketed, farm supplies purchased, and related services provided.

The billion-dollar States in the North Central sector of the country affected most dramatically by the agricultural downturn, accounted for 55 percent of farmer cooperatives' business in the United States (table 2). Eight of the 11 States with more than $2 billion volume were in the North Central area.

Sales of farm production supplies by cooperatives in the billion-dollar States amounted to $11.8 billion (table 3). These sales represented about 74 percent of cooperatives' supply sales in the entire Nation.

Bruce L. Swanson
ACS Agricultural Economist

(First of two-part series)

Table 2—Billion-dollar States' farm supply sales through cooperatives, by geographic sector, 1983[1]

Area[2]	Supply Category					
	Feed	Fertilizer	Petr. Prod.	Farm Chem.	Other Supplies	Total
	1,000 dollars					
Middle Atlantic	$355,431	$94,862	$936,910	$50,518	$250,718	1,688,439
North Central	1,773,231	1,686,640	2,964,883	741,598	1,366,688	8,533,040
South Atlantic	211,835	103,718	11,295	36,174	93,599	456,621
South Central	122,407	155,828	138,016	68,481	138,638	623,370
Pacific	150,681	74,754	85,221	50,551	147,605	508,812
Total	2,613,585	2,115,802	4,136,325	947,322	1,997,248	11,810,282
U.S. Cooperatives' Farm Supply Sales	3,594,064	2,837,204	5,433,841	1,250,216	2,827,632	15,942,957

[1] Net sales, excludes intercooperative business.
[2] See table 4 for States involved.

Table 3—Billion-dollar States' marketing sales through cooperatives, by geographic sector, 1983[1]

Area[2]	Marketing Category					
	Dairy	Fruits and vegetables	Grain and soybeans	Livestock	Other Marketing	Total
	1,000 dollars					
Middle Atlantic	$1,820,703	345,594	67,187	70,664	57,201	2,361,349
North Central	8,638,410	424,107	13,177,070	3,950,544	870,171	27,060,302
South Atlantic	606,021	656,569	26,556	22,532	930,238	2,241,916
South Central	579,377	30,7847	20,768	57,750	1,094,737	2,483,416
Pacific	1,738,259	1,999,187	376,973	94,114	2,003,358	6,211,891
Total, billion dollar States	13,382,770	3,456,241	14,368,554	4,195,604	4,955,705	40,358,874
U.S. Cooperative'[1] Marketing Sales	16,765,593	4,241,335	16,217,999	4,767,955	7,350,670	49,343,552

[1] Net sales, excludes intercooperative business.
[2] See table 4 for States included.

Farm supplies accounted for 22 percent of cooperatives' sales volume in the billion-dollar States and for 24 percent nationally. Supply items increasingly being handled in bulk orders of larger volume—feed, fertilizer, and petroleum products—comprised about three-fourths of total cooperative supply sales in both billion-dollar States and overall U.S. markets.

Products Marketed

Cooperatives in the billion-dollar States marketed products valued at $40.4 billion (table 4). Sixty-one percent of the sales volume was handled in the North Central billion-dollar States. Sales in the 20 billion-dollar States represented about 82 percent of total cooperative marketing volume in the U.S.

Marketings accounted for almost 76 percent of cooperatives' sales volume in these 20 States and for 74 percent in the U.S. as a whole. The grain and soybean sector—intensely affected by problems of too much capacity and too little market—furnished more than one-third of total cooperative marketing volume in the 20-State market. Another third was provided by the dairy sector, also in the midst of extensive restructuring to deal with excess supplies and adoption of new technology. Grain and dairy sales together represented 68.8 percent of cooperative marketing volume in these 20 States, compared with 66.8 percent for the entire Nation.

Services related to marketing and purchasing activities accounted for almost $1.3 billion of volume handled by cooperatives in the billion-dollar States. This represented 2.4 percent of all farmer cooperative volume in these States, only slightly different from the 2.2 percent for all U.S. farmer cooperatives. ■

Table 4—Cooperative business in billion-dollar States, by geographic sector, 1983.

Area[1]	Net Business Volume[2]	Percent of Total Business	
		Billion-Dollar States	U.S.[3]
	1,000 Dollars	*Percent*	
Middle Atlantic:			
New York	$2,273,983	4.3	3.4
Pennsylvania	1,813,924	3.4	2.7
Total	4,087,907	7.7	6.1
North Central:			
Illinois	4,461,596	8.4	6.7
Indiana	1,907,614	3.6	2.8
Iowa	5,757,965	10.8	8.6
Kansas	2,522,196	4.7	3.8
Michigan	1,787,679	3.3	2.7
Minnesota	5,334,798	10.0	8.0
Missouri	2,349,073	4.4	3.5
Nebraska	2,525,358	4.7	3.8
North Dakota	1,878,765	3.5	2.8
Ohio	2,642,056	4.9	4.0
South Dakota	1,233,611	2.3	1.9
Wisconsin	4,019,918	7.5	6.0
Total	36,420,629	68.1	54.6
South Atlantic:			
Florida	1,495,739	2.8	2.2
Georgia	1,258,924	2.4	1.9
Total	2,754,663	5.2	4.1
South Central:			
Arkansas	1,214,883	2.3	1.8
Texas	2,083,773	3.9	3.1
Total	3,298,656	6.2	4.9
Pacific:			
California	5,353,990	10.0	8.0
Washington	1,511,968	2.8	2.3
Total	6,865,958	12.8	10.3
U.S.	53,427,813	100.0	80.0

[1] No billion-dollar States were included in the New England and Mountain sectors.

[2] Net business includes farm products marketed, farm supplies purchased, and related services provided. Excludes intercooperative business.

[3] Total net farmer cooperative business in U.S. in 1983 exceeded $66.7 billion. Business in billion-dollar States represented 80 percent of the total.

Rural Youth, Adult Lives Enriched By Cooperative Education in Virginia

If education programs for the State's rural youth and young farmers can be viewed as an investment, substantial dividends already have been realized by the agricultural cooperative community in Virginia. Education has been the primary thrust of the 25-year-old Virginia Council of Farmer Cooperatives. More than 2,000 rural youth will have been educated when this year's program is complete. And some of the alumni have returned the favor in kind by teaching the merits of agricultural cooperatives in the State's school system.

Virginia's cooperative council members and guests pause for the opening invocation during the recent 25th anniversary celebration.

Claud L. Scroggs, chairman of the council's education and research committee and retired Southern States Cooperative executive, reviewed some of the council's accomplishments during its recent 25th anniversary program.

"In working with youth," he said, "a key element of our success has been the spirit of cooperation and collaboration between the council and State leaders at all levels of Future Farmers of America (FFA) and 4-H programs. With a limited budget and a part-time executive secretary, the council has been a coordinator and catalyst for program implementation through active guidance of its education and research committee," Scroggs explained.

The committee includes personnel from council members plus representatives from the State FFA and 4-H organizations. In the evolution of efforts, Scroggs said, essay and speaking contests were used successfully with incentives enabling scholars to attend annual summer sessions of the National Institute on Cooperative Education (NICE) sponsored by American Institute of Cooperation. Most of the source material came from publications produced by USDA's Agricultural Cooperative Service (ACS).

Patrick Duffey
Editor

Educators Need Co-op Information

A council survey some years ago showed only a few instructors of vocational agriculture were teaching cooperatives in classrooms. They lacked useful reference materials, especially those oriented toward cooperative activity in Virginia.

The council started working through the State offices of vocational agriculture and with specialists at Virginia Polytechnic Institute to prepare a teaching unit. The original text authored in 1969 by Dr. Dale Oliver of VPI was later updated for use by vocational agriculture instructors. Since then, district assistant supervisors have been able to get the unit adopted by most schools with vocational agriculture departments.

The council subsequently developed a 50-page supplement, *The Family of Cooperatives Serving Virginia Farmers* , and distributed it to all vocational agriculture departments in the State. It has been revised and twice updated. Copies of AIC's annual yearbook also were given to the departments.

"We turned to finding better ways to prepare youth scholars selected to attend the NICE summer institutes. A plan for seminars, *Ways of Doing Business—With Emphasis on the Cooperative Way* , was developed. The first was conducted at the Virginia 4-H Congress in 1971. Council-member cooperatives paid on-campus expenses for the youths selected to attend. Similar arrangements were made for vocational agriculture students to attend a cooperative seminar at the State FFA convention starting in 1972.

"We coordinated selection of youths to attend the seminars with area 4-H program leaders and district assistant supervisors of agricultural education. Each was given a slide set and script prepared by Virginia Tech's Extension Service and the co-op council," Scroggs explained. "Selection was limited to one person from each FFA chapter and 4-H club to provide wide distribution of the scholarships around the State."

To adequately prepare, each youth scholar must visit the sponsoring cooperative and bring a written

Many faces of people instrumental in progress of programs for the Virginia Council of Farmer Cooperatives gathered for its 25th anniversary celebration. From left, are Ray Hetzel, Culpeper Farmers Co-op, and Courtney Schwertz, Virginia Tech; Don Tindall, Southern States, and Carlyle Teague, Co-op Council of North Carolina; and Tom Hall, a council pioneer.

report about it to the 4-H or FFA seminar. The council provides a questionnaire to each youth for use when visiting the cooperative. "This gives us a measure of uniformity for judging the reports," Scroggs said. The council also supplies a study kit of cooperative reference materials about 3 weeks before the seminars to help prepare scholarship winners for their educational experience.

The 2-day seminars are fashioned to fit the time constraints of the State 4-H and FFA meetings. When not attending seminar sessions the youth return to regularly scheduled parts of the congress or convention. Since 1972, Dr. Don L. Long of VPI's Department of Agricultural Economics, and Scroggs, representing the council, have served as "faculty" for the seminars.

Participation at NICE

At the end of each seminar, the faculty selects outstanding FFA and 4-H members to represent the State at NICE. Last year, 22 of the 152 seminar participants were selected to attend NICE at Kansas State University. Selections were made on the basis of reports on visits to coooperatives, participation in seminar group activities, and on a quiz covering their knowledge and role of cooperatives in the free enterprise system. A vocational agriculture instructor and 4-H program leader served as counselors for the Virginia youth at NICE. Each counselor also has attended the seminar for his or her category at NICE and assisted the faculty in many ways.

"The council, with support from Virginia Tech's faculty, has developed quite an enviable program to increase knowledge of cooperatives in Virginia," Scroggs observed. "After the 1986 NICE, we will have had more than 2,000 youth enrolled in the seminars in the past 16 years. Almost 700 have had the opportunity to attend NICE and participate in its enriched cooperative education program." Youth scholars tell about their educational experiences in appearances before 4-H clubs, FFA chapters, and cooperative annual meetings including the State council. For several years, some have appeared on television programs and been interviewed for radio tapes for use during Cooperative Month in October. The tapes were distributed to 70 radio stations in the State for public service programs.

"And as a bonus, many alumni of earlier seminars have become cooperative ambassadors as vocational agricultural instructors and Extension Service agents in the State. We also support other aspects of AIC's educational programs. Each year we underwrite expenses for at least one graduate

Council Honors Scroggs

In marking its 25th anniversary, the council established a scholarship endowment fund honoring Scroggs for his years of working with youth on cooperative education programs. The council initiated a 3-year effort to raise $20,000. The council will match contributions up to a total of $10,000. Money earned from the endowment will finance trips to NICE for 4-H and FFA youths.

The Virginia council continues to operative with a part-time executive secretary. R.V. Rice is a retired executive from Southern States Cooperative at Richmond. The cooperative offers the council free office space

Council directors serve without compensation. It has 87 members. Each year the council provides $6,200 in scholarships to Virginia Polytechnic (Tech) Institute, sponsors 4-H and FFA youths and young farmers to NICE, conducts cooperative seminars at State 4-H and FFA conventions, and conducts an annual cooperative month promotion in October.

Among other participants in the anniversary celebration, from left, were Dave Slabach, manager of Southside Virginia Producers Co-op, examining publications at an ACS display; Mason Carbarough, Virginia Commissioner of Agriculture, pausing for a television interview; Claud Scroggs, council education chairman, listening to early recollections of Earl Shiplett, first executive secretary of the council.

or undergraduate student from Virginia to attend NICE's employee and collegiate seminar. Similarly, the council sponsors young farmers and young farm couples to attend special-interest sessions at NICE."

Council Forms Foundation

The council funds its cooperative education program through the Virginia Foundation of Cooperation, Inc., a tax-exempt foundation established in 1979. It was founded as a memorial to the late Luther A. Raper, the council's first executive secretary. Funding continues by cooperatives and friends and relatives of Mr. Raper.

The council's board doubles as the foundation board. Both the number and value of these foundation scholarships have increased with the flow of contributions. For the academic year 1985-86, four students received $600 scholarships in VPI's Department of Agricultural Economics.

Scroggs also saluted successful programs jointly sponsored with the faculty of VPI and years of service by Dr. James Bell. Workshops for cooperative managers and directors have been conducted for the past 13 years. Topics explored included communications, planning, respective roles of directors and managers, ideas that work, and management concepts. Many VPI staff members have served as faculty for the workshops.

Another dimension of adult education was the formation of a cooperative education committee to cover the five States served by the Baltimore Farm Credit District. The group includes representatives of Extension Services, Farm Credit System, USDA's Agricultural Cooperative Service, AIC, and State cooperative councils. They exchange ideas and collaborate on educational programs. They usually meet annually in conjunction with the annual Eastern Member Relations Conference. The committee also has sponsored three high-level training programs to discuss the various roles and responsibilities of cooperative directors, managers, and other employees.

Nineteen Co-ops Rank in Canada's Top 500

The Saskatchewan Wheat Pool, with 1985 business of $2 billion is the highest ranking co-operative in the *The Financial Post's* ranking of Canada's top 500 businesses. The Saskatchewan Pool ranks 47th among the top 500, dropping from 36th place in 1984, to lead the 19 cooperatives to make the top 500 rankings. Canada's leading corporation, measured by 1985 sales, was General Motors of Canada with sales nudging $19 billion.

Second among cooperatives was Federated Co-operatives, which ranked 66th with sales of $1.435 billion. Alberta Wheat Pool was third among cooperatives and ranked 69th with sales of $1.34 billion.

Other cooperatives in the top 500 and their rankings according to 1984 sales were: Cooperative Federee de Quebec, 83rd, $1.138 billion; United Grain Growers, 85th, $1.092 billion; Agropur, 116th, $759 million; Manitoba Pool Elevators, 137th, $657 million; United Co-operatives of Ontario, 175th, $483 million; Calgary Co-operative Association, 205th, $373 million; Co-op Atlantic, 264th, $288 million; United Farmers of Alberta, 282nd, $268 million; Purdel cooperative agroalimentaire, 314th, $226 million; Interprovincial Co-operatives, 326th, $213 million; Central Alberta Dairy Pool, 367th, $169 million; Gay Lea Foods Co-operative, 386th, $156 million; Lilydale Co-operative, 404th, $143 million; B.C. Tree Fruits Ltd., 437th, $120 million; Scotsburn Co-operative Services, 448th, $115 million; Farmers Co-op Dairy, 494th, $93 million.

COOPERATIVE ACTION

Inter-State Distributes $88,204

Inter-State Milk Producers' Cooperative at Southampton, PA, distributed $88,204 in patronage refunds in spring to more than 3,000 members and patrons. The patronage refund represents 20 percent of Inter-State's allocated income for fiscal 1985. Since the program began in 1936, Inter-State has returned more than $5.5 million to its members. In other news from the cooperative, Inter-State has introduced a new cooperative magazine. *Inter-State Communicator.* It will alternate publication with *Inter-State Update Newsletter* on a monthly basis throughout the year. They replace Inter-State's participation in the now defunct *Penmarva* magazine. Laura England edits the new publications.

Lake to Lake Reorganizes Business

The fluid milk and ice cream business of Lake to Lake Dairy Cooperative at Manitowoc, WI, has been reorganized in a separate division consisting of its plants and business functions at Sheboygan and Manitowoc. They have become part of the Land O'Lakes Food Group, joining comparable operations of the Dakota division and Norris and Lakeside joint ventures. Lake to Lake is a division of LOL.

AMPI Margins, Retains $15.9 Million

Management and board reports at the 17th annual meeting of Associated Milk Producers, Inc., (AMPI) indicated the dairy cooperative would "pursue opportunities aggressively to strengthen the position of members and all U.S. milk producers." Speaking before 2,000 delegates at Ft. Worth, TX, in April, General Manager Ira Rutherford said, "AMPI continues as the leader in the marketplace by exploring new and better ways to market member milk. Each approach must meet the test of maximizing milk producers' long-term return from the total investment in their dairy farms and their cooperatives." Total sales for fiscal 1985 were $2.4 billion. Member milk deliveries were 15.66 billion pounds, about 11 percent of national production. Net margins and capital retains were $15.9 million. Member equity in the cooperative reached $115 million. (Since 1969, AMPI has revolved $135 million in member equity). During the year, AMPI produced 279 million pounds of nonfat dry milk, about 20 percent of the national production; American cheese, 274 million pounds, about 10 percent; and dried whey, 127 million pounds or about 13 percent. AMPI invested more than $20 million in property, plant, and equipment. AMPI's computer network, an indication of greater use of computer technology, now features 450 direct-entry terminals.

Land O'Lakes Closes Turkey Plant

Land O'Lakes turkey plant at Atkins, MN, has been permanently closed due to insufficient volume in the area. Certain equipment has been transferred to other LOL processing plants and the Atkins facility will be sold or leased. Turkeys were last processed there in December 1984. Although more than 20 million pounds of turkey were processed, projections indicated 30 million were needed to remain competitive.

Culpeper Returns $572,000 to Members

Sales of Culpeper (VA) Farmers Cooperative, Inc., for fiscal 1985 reached $15.1 million, down about 10 percent from 1984, due in part to lower prices on some merchandise. Net margins after taxes and reserve were $519,459, facilitating a patronage refund of 3.28 percent. Manager Ted Gore said the cooperative returned $572,000 in cash to members and patrons (representing 1984 cash refunds paid in cash, payment of 1970 equities, and estate retirements), making a total of $3.8 million returned in the past 10 years. The local co-op has six retail stores.

Rockingham Shows Dramatic Turnaround

Net margins of $2.5 million based on nearly $98 million in fiscal 1985 sales were reported by Executive Vice President Chuck Kucharik at the 45th annual meeting of Rockingham Poultry Marketing Cooperative at Broadway, VA. The strong performance represented a $4.6 million recovery from the 1984 loss. Operational performance was actually $3.1 million, but the association repaid a grower payment cut made in 1983 and paid $290,000 in net expense after insurance due to floods last November.

Kucharik said progress was made in moving Rockingham's sales into higher margin foodservice and retail tray-packaged products. Reductions in frozen product sales the past 2 years were attributed to subsidized foreign competition and the strong dollar that has lowered Rockingham's export sales. The $13.8 million paid to growers in patronage returns was reduced by the unallocated loss of $2.1 million carried forward from 1984. Kucharik said the cooperative's dramatic 6-year declining equity trend was reversed in 1985 with a jump to a $12.6 million. President Charles Campbell and Warren Wittig, immediate past president, both lost director reelection bids and were replaced on the board by E. Eugene Lantz and Ronald L. Painter. At the request of West Virginia House of Delegates, Rep. Thomas J. Hawse III wasn't reappointed a public director for 1986. Dallas O. Adams was appointed to replace Hawse. Adams is a retired loan officer of the Farm Credit Banks of Baltimore and a resident of Keyser, WV. During the board's annual reorganization meeting, Daniel W. Brubaker was elected president, and J. Robert Black, Sr., first vice president.

National Council Moving in DC

National Council of Farmer Cooperatives (NCFC) and its affiliates have moved to a new office location. NCFC, American Institute of Cooperation, Agricultural Cooperative Development International, and Farm Credit Council are on the same floor of an office building next to the Sheraton Grand Hotel in Washington, DC. Mailing address is: 50 F Street, N.W., Suite 900, Washington, DC 20001. Phone (202) 628-6676.

Prairie Home Co-op Regains Strength

Three years after members conducted a fundraising drive to keep their cooperative alive, Prairie Home Cooperative at Prairie Home, MO, is regaining financial strength and next year hopes to pay a patronage refund. Margins for fiscal 1985 were $36,595 based on sales of $1.6 million. The extra funds enabled members to buy the co-op from former owner MFA, Inc., which had been planning to dissolve it. Recovery was aided by reducing interest rate expenses. Equity in the co-op has been building.

Cranberry Juices for UK Palates

Especially formulated versions of fruit drinks manufactured by Ocean Spray Cranberries, Inc., are being introduced in the United Kingdom this summer under a copacking agreement with Ledbury Preserves Company in central England. The cooperative's cranberry sauce products have been popular there for some time.

Merge with Dairymen

North Louisiana Pure Milk Producers Association board has ratified its merger with Dairymen, Inc., of Louisville, KY. The 95 new members with an estimated production of 150 million pounds will join Dairymen's Southwest Louisiana Division.

Dairylea Sells NY Milk Plant

Dairylea Cooperatives, Inc., Syracuse, NY, has sold its fluid milk processing and distribution business in metropolitan New York City to Tascan Dairy Farms, Inc., Union, NJ, but the cooperative will continue to supply milk and manufactured dairy products to the operation. The 250 employees have been added by Tascan.

Norbest Gains East Coast Presence

Norbest, Inc., Salt Lake City, UT, is gaining an East Coast presence via its sixth member, Carolina Turkeys. The coperative's newest member is a partnership of two private companies—Carroll Foods, Warsaw, NC, and Sleepy Creek Turkeys, Goldsboro, NC. Carolina Turkeys is building what is believed to be the largest turkey processing plant in the world.

Almond Growers Eye $20 Million Savings

California Almond Growers Exchange at Sacramento hopes to save more than $20 million from cost reductions and revenue improvements in a series of plant closings, salaried staff reductions, freezes on employee salaries including officers, and reduced plant labor. The moves were prompted by 1986 forecasts projecting an almond crop of half the normal size.

Sunkist Adds Two Affiliates

Sunkist Growers, Inc., Sherman Oaks, CA, has signed two new affiliate shippers, Coachella Valley Citrus in Thermal and Golden Valley Citrus, Inc., in Strathmore. Curt Anderson, vice president of member and public relations, said the two shippers would add 2 million cartons to Sunkist's fresh fruit volume next season. The affiliations will take effect when the packers start handling new crop fruit this fall.

Co-op education brought 37 "students" and a diverse "faculty" together at GICL. Among participants were, from left, Michael Boehlje, U of MN; William Cubbage, Countrymark; and Charles Cramer, GICL exec. secy., U of MO; opposite page, left to right and top to bottom, Michael Phelps, CENEX, and Ralph Richardson, ACS; Steven Nail, Farmers Grain Terminal, and Milton Wolf, Sunkist; Tom Rodak, Milk Marketing, Inc.; William Taft, GROWMARK; Roger Cramer, Omaha FCBs; James Sauer, Land O'Lakes, and Roberta Cook, U of CA; Brice Ratchford, U of MO, and Sheldon Stahl, Midwest Research Institute. (U of MO Photos by Dan Howell)

'Had to Become Better Managers Again,' Frew Tells 15th GICL

The 15th Graduate Institute of Cooperative Leadership (GICL) was appropriately convened in early June on the campus of the University of Missouri-Columbia from which it originally sprang. The 2-week comprehensive cooperative "school" graduated 37 "students." It now claims more than 600 alumni, some of them top executives in today's agricultural cooperatives.

One of the grads from the first class was Bud Frew, now chief executive officer of MFA, Inc., at Columbia, MO. In remarks to the 1986 class, Frew spoke of the "enduring friendships" the classmates would make and their exposure to a broad brush of subjects facing cooperatives today. Perhaps in a tribute to 15 years of GICL "schools", Frew noted, "Employees in cooperatives now are learning better lessons today than 10 years ago."

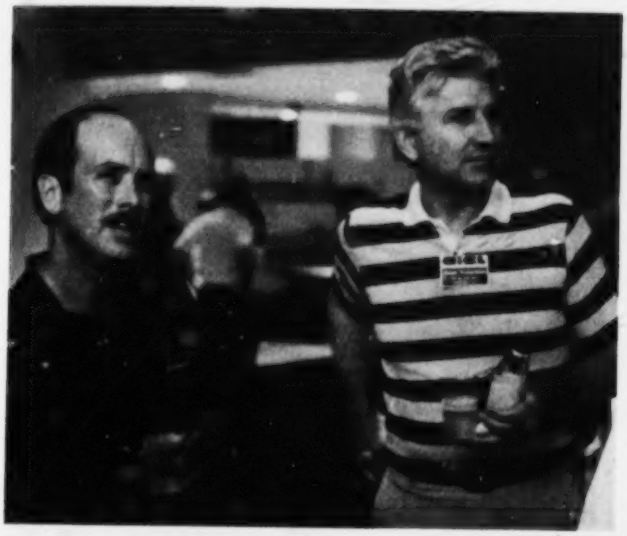
Agriculture had its day in the sun during the 1970s, only to crash back to questioning all realities in the 1980s, he said. "We had to back up to become better managers again. Those learning the business today are doing it in the right time. We've got to approach cooperatives from a business standpoint and learn the lessons of basic economics."

Given the experience of financial difficulties experienced in recent years by cooperatives including MFA, Frew advised the future cooperative leaders, "Don't leverage too heavy and invest in areas that can't produce a return. Growth doesn't come without some payment. In the long run you'll be better managers for the future.

"If there's a harder way of doing business than cooperatives, I haven't found it. Cooperative management is very difficult," he advised, "but those difficulties can be overcome. We're not there yet. We're not communicating with the membership. We still have some adversary differences to overcome, but the time is right to do it.

"We've struggled in trying to make a transition from tradition to reality. Will we remember our lessons? Farmers Export Company (former interregional grain marketing cooperative sold to ADM last year) failed because of it. I don't believe it was necessary for cooperatives to exit the grain business in the Mississippi River corridor. We'll never be able to finance a system like that again."

Looking ahead, Frew cautioned, "We've got to weather storms (like this) without great washouts, although this has been the worst time for cooperatives since the Depression of the 1930s. We are working with an industry that has no place for tradition. If we learn our lesson we'll become viable cooperative organizations, but cooperatives don't have the right to be all things to all people."



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Milton Gary Wolf

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PEOPLE IN NEWS

Ed Needham...

has been elected president for 1986 by the board of directors of the Kansas Cooperative Council. He has been the general manager of the Cheney Cooperative for the past 13 years. He began his cooperative career at Conway Springs in 1965. Ken Larsen, general manager of Linn County Farmers Cooperative for 8 years, was selected as vice president. Larsen began working for cooperatives in North Central Kansas in 1958. Jim Dooley of Jewell continues as secretary.

At Farm Credit Administration...

appointment of Frank Naylor and Marvin Duncan have been confirmed by the U.S. Senate to seats on the Farm Credit Administration Board. At its first meeting, Frederick D. Medero was named general counsel and Kenneth J. Auberger, secretary, both staff holdovers from the previous management staff.

At Land O' Lakes...

Al Giese, vice president, agronomy for Land O'Lakes Agricultural Services, has been elected to a 3-year term on the board of The Fertilizer Institute, a national industry trade association based in Washington, DC. Everett Leach, LOL's director of ag technology and sales development, has been named president of the Iowa Fertilizer and Chemical Association. Duane Halverson, group vice president of the agricultural services division, has been named outstanding agribusiness person by the Iowa State University Ag Business Club.

Howard 'Dan' Poulson...

the Wisconsin Farm Bureau Federation representative on the GROWMARK, Inc., board of directors for the past 8 years, has been elected vice chairman of the cooperative's board. Poulson, one of two vice chairmen on the 22-person board, will fill the spot vacated by Robert Joslin of Iowa, who stepped down after being elected president of the Iowa Farm Bureau. Poulson is vice president of the Wisconsin Farm Bureau Federation and past president of the Wisconsin FFA Association.

Joel Blake...

petroleum vice-president for CENEX, Inc., at St. Paul, MN, has been elected to the National Petroleum Refiners Association Executive Committee. He has been on the board since 1981.

At Calcot, Ltd...

George L. "Sam" Seitz, chairman emeritus and an internationally recognized leader in the cotton industry, was honored for contributions to agriculture April 17 by the California Chapter of the American Society of Farm Managers and Rural Appraisers. After 9 years service with USDA agencies in Washington, Seitz joined Calcot, the cotton cooperative at Bakersfield. He was hired by the cooperative's first general manager, J. Russell Kennedy, and succeeded him when Kennedy retired in 1971. His contributions to the cotton industry continued after retirement. He served as chairman of Amcot, Inc., marketing arm of four major U.S. cotton cooperatives. After retirement, Seitz contributed seed money for an agricultural foundation to provide scholarship and research funds in support of agriculture. He serves as president of the Calcot-Seitz Foundation.

At Columbia Farm Credit Banks...

Thomas F. Snider has been named executive vice president and head of the finance and information management division, according to Maxey Love, Jr., chief executive officer. Snider had been vice president and chief financial officer for the Baltimore Farm Credit Banks. With his appointment, the selection of four division heads to provide joint management of the banks has been completed. Others are Jack Condra, president and chief operating officer, head of the credit division; Charles Cook, executive vicesident and chief executive officer and head of the administrative division; and W.R. Batchelor, senior vice president and head of the internal review division. Condra has named five vice presidents in the credit division: N. Kenneth Alford, Merle E. Palmer, Larry Shoffner, J. Charles Thompson, and Thomas S. Welsh.

At National Cooperative Business Association...

Frank B. Sollars, board chairman of the Nationwide Mutual Insurance Companies, has been chosen to head the board of directors. He succeeds Ms. Barbara Deverick. Sollars has been on the board of directors at the Nationwide Insurance Companies since 1968 and chairman of Nationwide Mutual Insurance Company since 1972. He is the owner and operator of a 2,350 acre farm in Ohio; chairman of the Sollars Brothers Corporation, a farm equipment manufacturer; chairman of the Fayette County Bank; chairman of National Cooperative Bank; and a member of the board of governors of the National Agricultural Hall of Fame.

Other NCBA officers elected were Donald R. Armstrong, Universal Cooperatives, Inc., Minneapolis, first vice chairman; Jim R. Williams, Credit Union National Association, Madison, WI, second vice chairman; Tom Townsend, Mid-America Dairymen, Inc., Springfield, MO, secretary; and Rod Nilsestuen, Wisconsin Federation of Cooperatives, Madison, WI, treasurer.

Frank Meyer. . .

vice president, industry affairs for Morning Glory Farms, Shawano, WI, has retired after 26 years in marketing, and public and member relations service for the milk marketing cooperative owned by 2,000 family dairy farmers in northern Wisconsin. Meyer represented the co-op on the board of Central Milk Producers Cooperative (CMPC) and was its secretary for 16 years. He has also represented the cooperative at Federal order hearings, in relationships with the market administrator's office, and in Class I price negotiations in the Chicago market. Morning Glory is one of 12 cooperative members of CMPC, which has announced prices and negotiated super pool premiums in the Chicago market. Meyer will continue to represent the cooperative in CMPC as a consultant through August.

At Southern States Cooperative. . .

William M. Smith has been named vice president, retail services, in a restructuring of SSC's retail services staff after the recent addition of operations in North Carolina. Reporting to him will be SSC's 10 regional managers, the North Carolina Division manager, and the manager of 58 retail operations. Smith has been director of retail operations since November 1981. Gene R. Anderson has been named vice president, human resources, replacing Howard W. Butler Jr., who retired June 30.

Robert Vaughn. . .

has been selected general manager of Maryland and Virginia Milk Producers Cooperative Association succeeding James Click who recently retired as general manager after 40 years with the co-op. Click will continue as secretary-treasurer with the cooperative.

Joseph "Joe" A. Lieber. . .

has been named executive vice president of the Kansas Cooperative Council replacing Nancy Kantola. The board unanimously selected Lieber and cited his work for the council as the executive assistant over the past 1½ years.

Secretary of Agriculture Richard Lyng presents USDA's senior service award to Dr. James Haskell, right, director of ACS' Cooperative Marketing and Purchasing Division.

Dr. James Haskell. . .

was recently honored with U.S. Department of Agriculture's Superior Service Award for outstanding leadership and management as director of Agricultural Cooperative Service's Cooperative Marketing and Purchasing Division (CMPD). His leadership resulted in timely research and technical assistance on problems facing U.S. farmers and their cooperatives. He has periodically counseled cooperatives, other USDA agencies, and Congress about cooperative marketing, pricing, and organization. Haskell is recognized as an authority in the Federal Government on the subjects. He also was personally involved in the cooperative restructuring of the Texas High Plains cotton industry and development of major cooperative wheat marketing and pooling programs. His work contributed to increased efficiency of many cooperative gins and their further involvement in innovative marketing programs such as Telcot, an electronic marketing system, and American Cotton Growers, the Nation's only farmer-owned cooperative integrated through textile manufacturing. He also has been at the forefront of developing innovative cooperative pooled wheat marketing programs of significant economic importance to the Nation's wheat producers.

Peter J. Carney. . .

the Farm Credit System's chief money raiser since 1980, has resigned as president and chief executive officer of Farm Credit Banks Funding Corporation in New York City to join a private company.

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MANAGEMENT TIP

'Preacher' Black Offers Guidelines to Cooperatives

Editor's Note: Contents of this article were derived from a larger one recently published in the Texas Bank for Cooperatives' AgriView and condensed for use in Famer Cooperatives magazine.

Dr. William E. Black retired from teaching at Texas A & M University last fall after more than a quarter century as a cooperative advocate to his credit. For 5 years before retiring he held the professorship named after Roy B. Davis, one of that area's most prominent cooperators and pioneers in agriculture. The position was established to ensure cooperative education and development would remain a part of the curriculum at Texas A & M.

An advocate of improved cooperative management techniques, Black was a staunch supporter of cooperatives for years before his association with Texas A & M. Black helped establish Lake to Lake Dairy Cooperative while an extension economist at the University of Wisconsin. At one time, he owned a dairy farm in Wisconsin and was chairman of a dairy cooperative board. He later worked extensively with the citrus industry including cooperatives while working for the Florida Citrus Commission as director of economic and marketing research. He also managed a vegetable marketing order administrative committee in Florida.

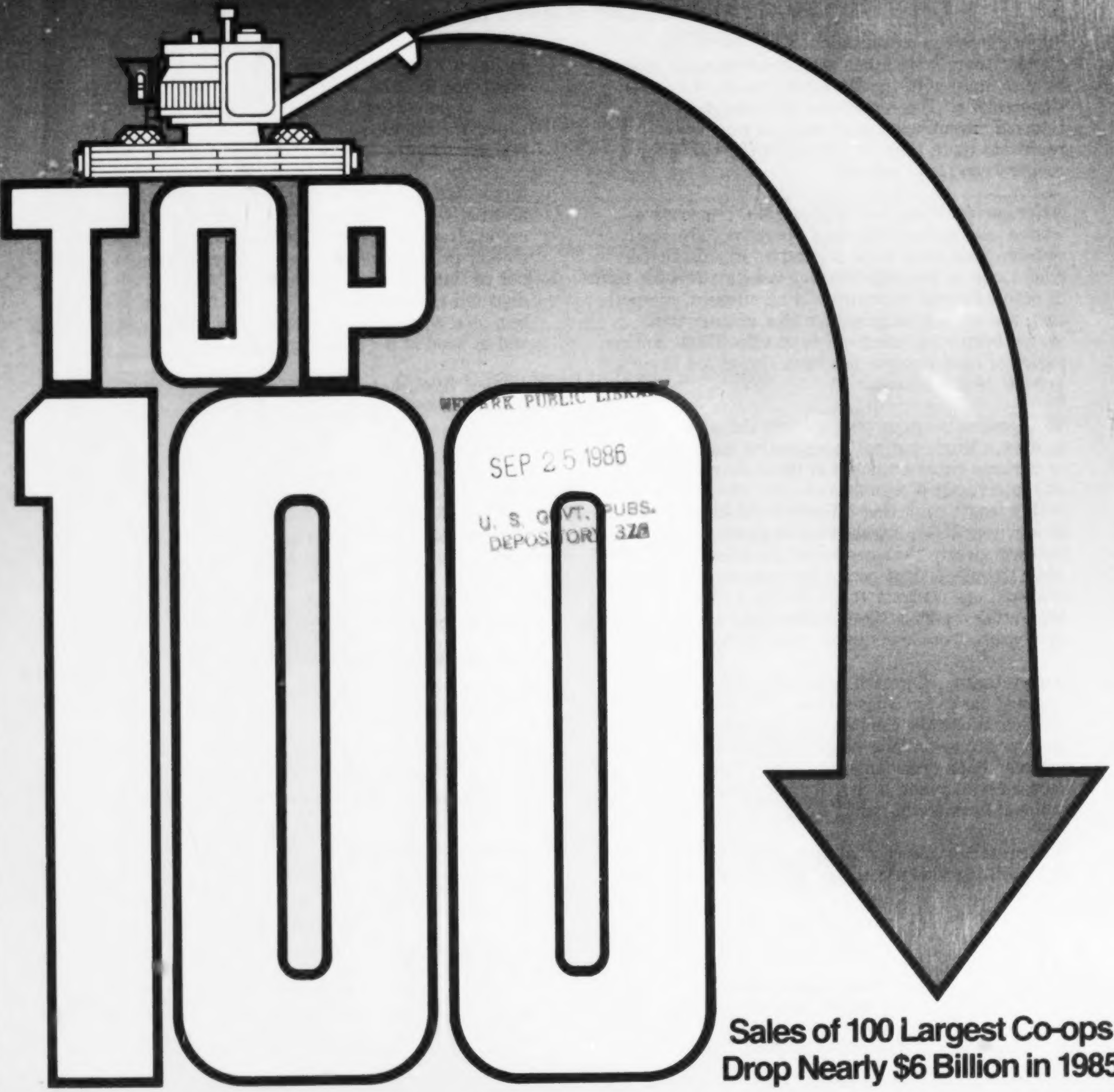
Black has developed an almost evangelistic style of "preaching" about cooperatives and the general direction he thinks they should take. Here are eight of his constants:

- Cooperative boards must learn to read financial statements to foresee and head off disasters.
- Cooperatives should conduct educational programs for membership.
- Boards and managers should set goals and conduct long-range planning to avoid crisis management.
- Boards must be more accepting of mergers and consolidations for greater efficiency.
- Ownership of cooperatives should be brought into the hands of present-day patrons. Many cooperatives have a high percent of ownership in the hands of retired members or heirs.
- Cooperative boards and managers should make a greater effort to train new directors.
- Cooperatives should develop a committed system through use of cooperative agreements (membership contracts).

Farmer COOPERATIVES

September 1986

United States Department of Agriculture/Agricultural Cooperative Service



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Sales of 100 Largest Co-ops Drop Nearly $6 Billion in 1985

A 109. 11:

Which Direction for Cooperative Banks?

Major change in organization of the Banks for Cooperatives system has been recommended recently by a committee of the National Council of Farmer Cooperatives. The committee was composed of regional executives. Large regional borrowers represent more than 70 percent of the banks for cooperatives' loan volume.

After careful study and deliberation, cooperative leaders are saying loans to cooperatives are vastly different and need to be separated organizationally from loans to farmers. The key question is what form of organizational structure will be efficient, competitive, and offer quality service in a manner that serves borrowing members most effectively. Anticipation of such changes has been chronicled in earlier articles in this column.

The consensus option proposed by the executives is to have a single national cooperative bank with two or perhaps three branches in the country. Regional and interregional organizations feel the need to deal with a single bank that offers a sophisticated bundle of services. This centralization of assets and service answers clearly the question of whether cooperatives need 13 independent banks for cooperatives (12 district and one central). It also states a case for separating organizationally loans to production agriculture from loans to cooperative businesses.

An alternative approach is to have four or five regional banks for cooperatives. This assumes district BC operations are combined in discrete regions and appropriate to funding needs. Still another, promoted by some bank presidents, is to keep farm lending and cooperative lending under the same management in a national farm credit bank.

A far-reaching alternative that makes economic sense is to pull together three lending institutions: Banks for Cooperatives (BC's), Cooperative Finance Corporation (CFC), and National Cooperative Bank (NBC) chartered in 1978. Does it make sense to have these three organizations lending separately to similar types of cooperatives? A diversified loan portfolio of a single cooperative bank would result.

Momentum is given to consideration of organizational alternatives by the heightening difficulties in farm credit. Rapid disinflation of land values, weak commodity prices, and high leverage are causing a number of loans to be non-performing. As reserves are depleted through loss sharing, the farm credit system as a whole teeters on the brink of insolvency and in need of a Federal transfusion.

A likely requirement for this transfusion will be some restructuring within the Farm Credit System. The challenge will be to craft a stronger organization better able to tap money markets, diversify its portfolio, provide more cost effective service to borrowers, and be a stronger financial institution in which members have their stock invested. It must also provide for borrower control and mechanisms for meaningful input by members at borrowing points.

As is often the case, crisis shifts members' attention from the sidelines to the mainstream. This is a time when cooperative leaders must become heavily involved in a decision process to determine what type of cooperative lending system can serve them best. The time for some of these critical decisions is short.

Randall Torgerson

Randall E. Torgerson
ACS Administrator

Farmer
COOPERATIVES

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Marketing and Inspection Services

Randall E. Torgerson
Administrator

Gene Ingalsbe
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Peter Manzelli
Technical Director

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Assistant Editor

Marjorie Christie
Editorial Assistant

Production Staff:
Deborah Cooper
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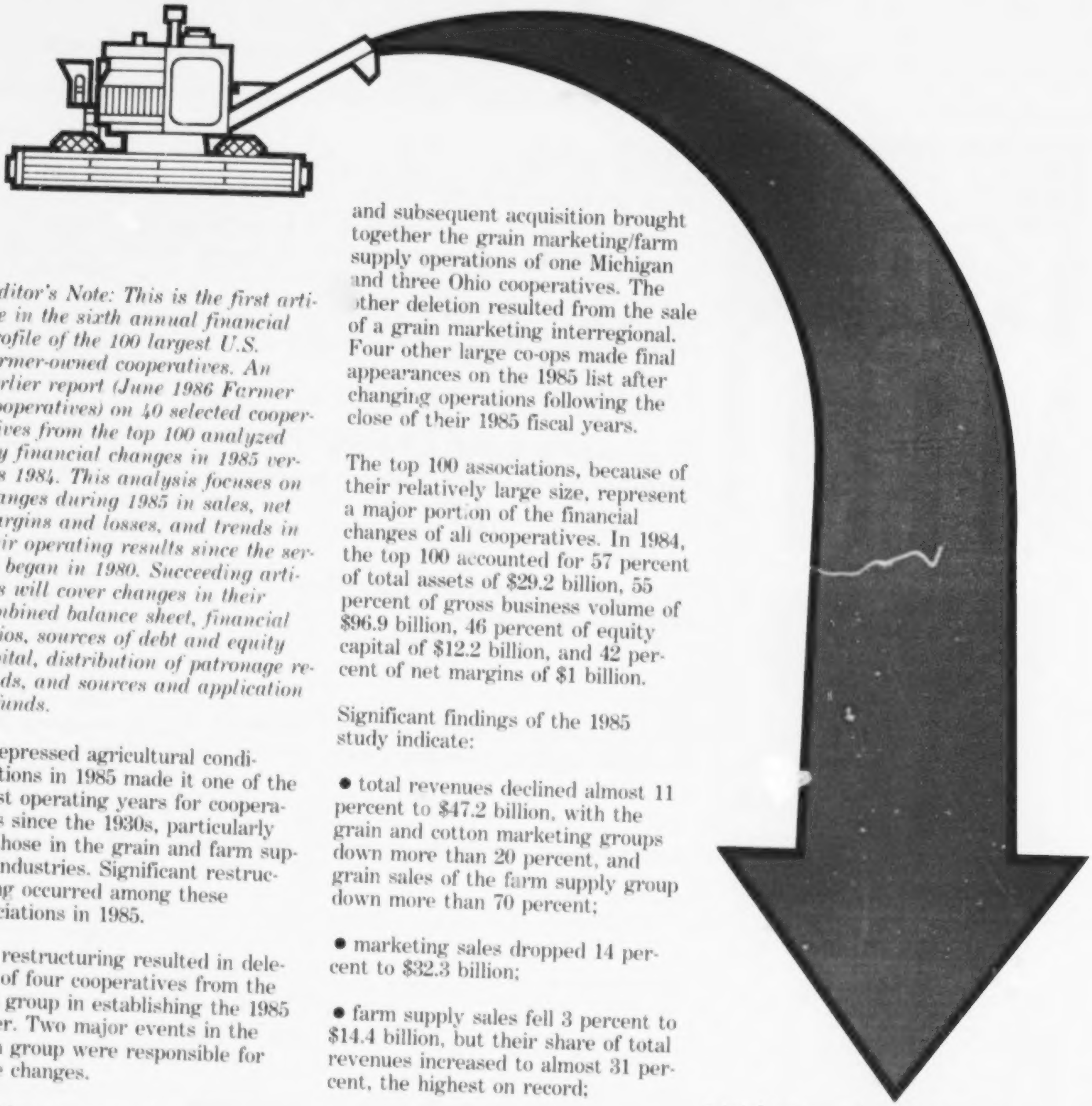
Deborah Thornsbury

Sales of 100 Largest Co-ops Drop Nearly $6 Billion in 1985



Editor's Note: This is the first article in the sixth annual financial profile of the 100 largest U.S. farmer-owned cooperatives. An earlier report (June 1986 Farmer Cooperatives) on 40 selected cooperatives from the top 100 analyzed key financial changes in 1985 versus 1984. This analysis focuses on changes during 1985 in sales, net margins and losses, and trends in their operating results since the series began in 1980. Succeeding articles will cover changes in their combined balance sheet, financial ratios, sources of debt and equity capital, distribution of patronage refunds, and sources and application of funds.

Depressed agricultural conditions in 1985 made it one of the worst operating years for cooperatives since the 1930s, particularly for those in the grain and farm supply industries. Significant restructuring occurred among these associations in 1985.

The restructuring resulted in deletion of four cooperatives from the 1984 group in establishing the 1985 roster. Two major events in the grain group were responsible for these changes.

The biggest cooperative merger in 1985 resulted in the formation of a new Ohio regional. This key merger and subsequent acquisition brought together the grain marketing/farm supply operations of one Michigan and three Ohio cooperatives. The other deletion resulted from the sale of a grain marketing interregional. Four other large co-ops made final appearances on the 1985 list after changing operations following the close of their 1985 fiscal years.

The top 100 associations, because of their relatively large size, represent a major portion of the financial changes of all cooperatives. In 1984, the top 100 accounted for 57 percent of total assets of $29.2 billion, 55 percent of gross business volume of $96.9 billion, 46 percent of equity capital of $12.2 billion, and 42 percent of net margins of $1 billion.

Significant findings of the 1985 study indicate:

- total revenues declined almost 11 percent to $47.2 billion, with the grain and cotton marketing groups down more than 20 percent, and grain sales of the farm supply group down more than 70 percent;

- marketing sales dropped 14 percent to $32.3 billion;

- farm supply sales fell 3 percent to $14.4 billion, but their share of total revenues increased to almost 31 percent, the highest on record;

- other income decreased about 1 percent to $0.4 billion;

- total net margins before losses dropped 15 percent to $421.6 million;

- total net losses increased 179 percent to $180.8 million;

- total net margins after losses decreased 44 percent to $240.8 million;

- grain and farm supply group losses exceeded net margins, grain losses by $42 million;

- nearly 80 percent of total net losses occurred in the grain and farm supply groups; and

Donald R. Davidson
Jeffrey S. Royer
ACS Agricultural Economists

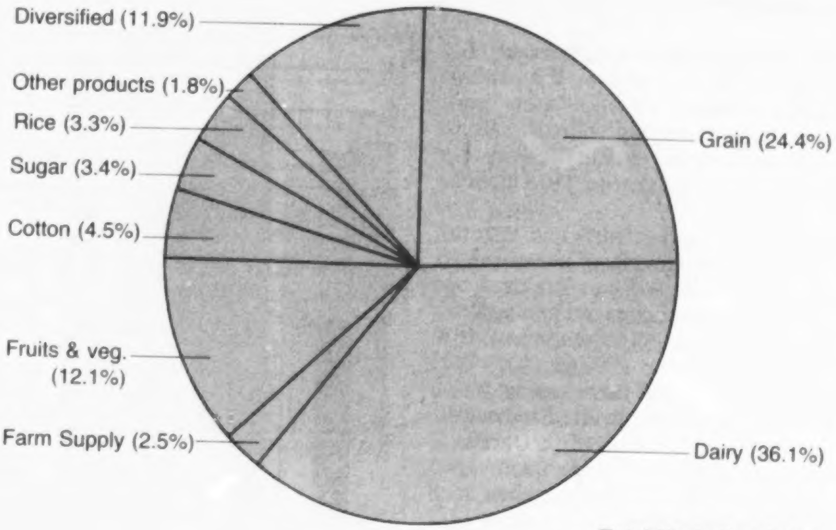
- interest coverage ratio fell from 1.58 to 1.37.

Total Revenues Down

After peaking in 1981 at $57.8 billion, total revenues (marketing and farm supply sales plus other income) dropped the next 2 years, rose about 9 percent in 1984, and then sagged again to $47.2 billion in 1985 (fig. 1). This $5.6 billion decrease from $52.8 billion in 1984 represents a 10.7-percent fall in revenues, their lowest level in 5 years.

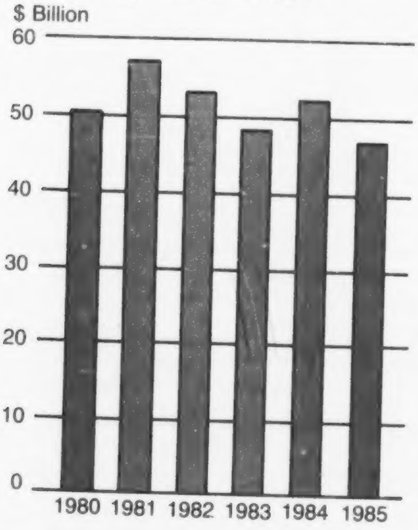
By comparison, the 500 largest U.S. industrial corporations increased sales 2.8 percent in 1985. The largest number of cooperatives in the history of the listing, 12 regionals and 3 interregionals, ranked among *Fortune* magazine's top corporations for 1985. They covered a wide range of operations—four farm supply, three diversified, three dairy, two fruits and vegetables, one sugar, one rice, and one grain.

Fig. 2—Marketing Sales by Commodity Group, 1985



Total Marketing Sales
$32.295 Billion

Fig. 1—Top 100 Revenues



General Motors Corp. (GM), the biggest U.S. industrial company, had 1985 sales of $96.4 billion, up almost 15 percent for an all-time high. By comparison, the largest U.S. agricultural cooperative (ranking 95th on the *Fortune* 500 list) had sales of $4.1 billion, down about 1 percent from 1984. GM's 1985 sales were 23 times greater than the largest cooperative, twice as much as the 100 largest cooperatives' volume combined, and about the same as the total business volume of all U.S. agricultural cooperatives.

Marketing sales of $32.3 billion, by far the biggest income item for the top 100 as a share of total revenues, slid to 68.5 percent of total volume in 1985 versus 70.9 percent in 1984 (table 1). In both years, 90 of the 100 largest cooperatives reported marketing sales.

The 32-co-op dairy group accounted for 36 percent of the $32.3 billion of total marketing sales in 1985 (fig. 2). The 15 grain group cooperatives ranked next with 24.4 percent. Together, they represented 61 percent of the top 100's total marketing sales compared with 59 percent in 1984. Fourteen co-ops in the fruit and vegetable group contributed 12.1 percent of total marketing sales versus 9.5 percent in 1984. Cotton's share was down slightly in 1985 to 4.5 percent. Grain sales of the 13-co-op farm supply group showed the biggest drop in share of total marketing receipts, down 5.7 percentage points from 8.2 percent in 1984.

Marketing volume decreased $5.2 billion or 13.8 percent in 1985, accounting for more than 90 percent of the top 100's $5.7 billion decline in total revenues (table 1). Behind the fall lay the sharp decline in the dollar value of grain sales. Sagging grain sales emerged as the chief cause for the 10.7-percent decrease in total revenues for the top 100.

Farm supply sales, as a percent of total revenues, increased 2.3 points to 30.5 percent, the highest on record. Farm supply volume of 42 cooperatives (40 in 1984) dropped $472 million to $14.4 billion.

Groups marketing fruits and vegetables and other products increased sales —up 10.2 and 1 percent respectively. All other commodity marketing and farm supply groups had lower revenues in 1985 (fig. 3). Grain, cotton, and farm supply groups were hardest hit. Revenues for each were down more than 20 percent. Nearly all of the farm supply group's $2.5 billion decrease in revenues came from lower grain sales. Actual farm supply sales dropped only 2.3 percent to $7.8 billion.

Net Margins Slump

Margins fell sharply (44 percent) in 1985 to $241 million, reflecting serious financial conditions in the farm sector since 1980, when net margins peaked at $1.1 billion. From their lowest recorded level in 1982 at $125 million, earnings tripled in 1983 and increased again by 8 percent in 1984 to $430 million (fig. 4).

Fortune 500 companies also generated less profit in 1985. Margins fell 19 percent. The magazine called it "the worst performance since the recession year of 1982." Seventy companies lost money, the largest number in the 32 years of the listing. Proportionately, 14 percent of the 500 reported net losses in 1985 (7 percent in 1984), compared with 17 percent among the co-ops both years (table 2).

Fig. 3—Total Revenues by Top 100 Groups, 1984 vs. 1985

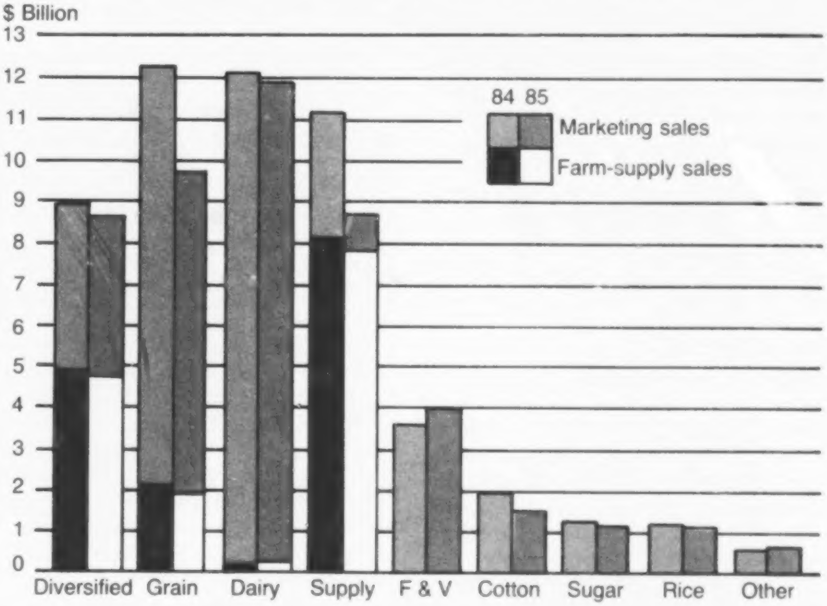


Table 1—Revenue sources of top 100[1]

Source	1984			1985		
	Number[2]	*Million dollars*	*Percent*	*Number[2]*	*Million dollars*	*Percent*
Net sales:						
Marketing	90	37,476	70.9	90	32,295	68.5
Farm supply	40	14,891	28.2	42	14,419	30.5
Other income	81	447	0.9	80	443	100.0
Total		52,814	100.0		47,157	100.0

[1] Includes intercooperative business.

[2] Cooperatives reporting revenue from each source.

Table 2—Top 100 net margins before and after losses

Item	Cooperatives[1] 1984	Cooperatives[1] 1985	1984	1985	Increase (decrease)
	Number		*Million dollars*		*Percent*
Net margins[2]	79	79	494.7	421.6	(14.8)
Net losses	17	17	64.8	180.8	179.2
Margins after losses			429.9	240.8	(44.0)

[1] Identical cooperatives used in both 1984 and 1985.

[2] Four cooperatives each year used pool accounting methods with no net margin (or loss) activities reported.

Fig. 4—Top 100 Net Margins
(After Deducting Net Losses)

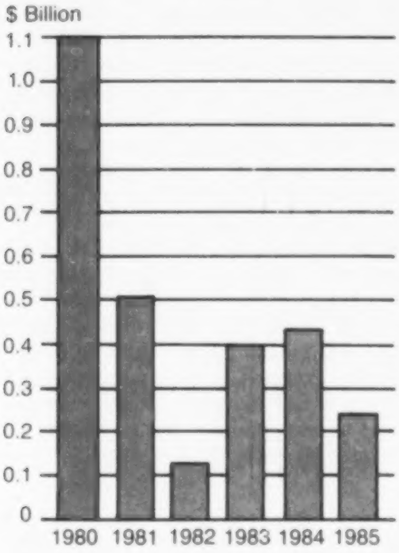


Fig. 5—Top 100 Net Losses

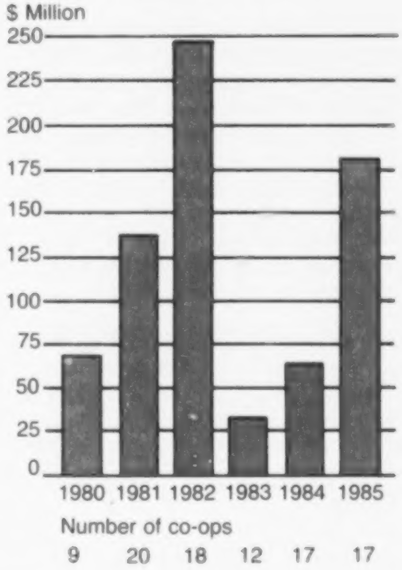
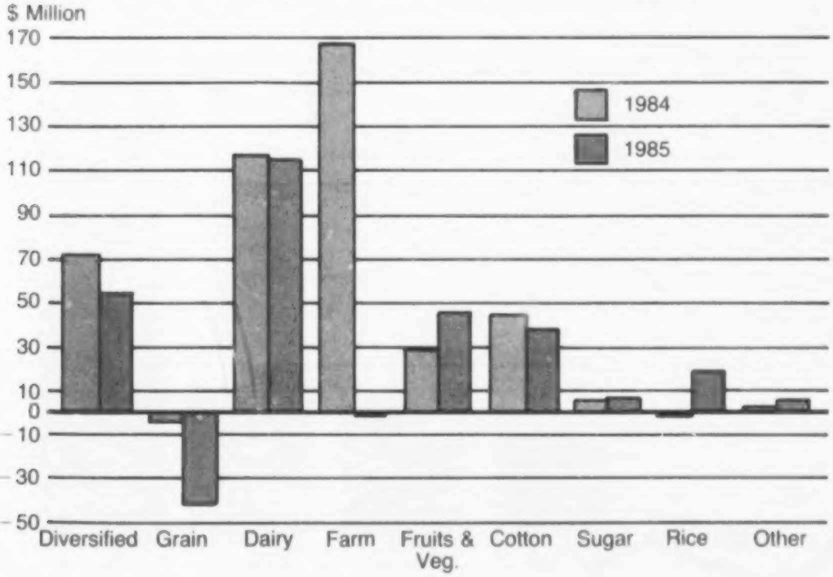


Fig. 6—Top 100 Net Margins by Commodity Group, 1984 vs. 1985



Seventy-nine of the 100 largest cooperatives had net margins each year. They were down 14.8 percent before deducting losses to $421.6 million in 1985 from $494.7 million in 1984 (table 2). Four marketing co-ops operated on a pooling basis both years and therefore showed no net margins or losses on their operating statements. Pooling associations generally rely on per-unit capital retains as their primary source of equity capital.

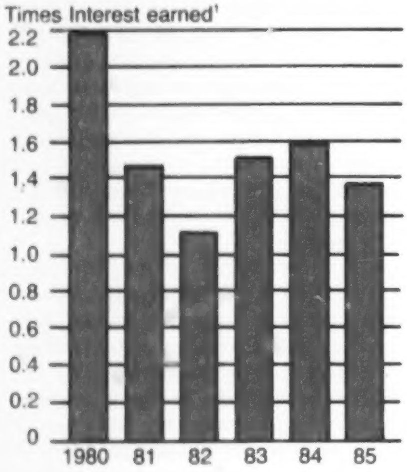
Rising losses by farmer-owned co-ops during the past 2 years were another indicator of serious trouble in the agricultural sector (fig. 5). In 1983, it looked like the problem was licked when losses dropped nearly 90 percent and net margins more than tripled. However, net losses more than doubled in 1984 ($65 million) and almost tripled in 1985 to $181 million.

Heaviest Losses In Grain

Nearly 80 percent of the $181 million of total losses occurred in the grain marketing and farm supply groups. Five of the 15 co-ops in the grain group had substantial losses. Four of the 13 co-ops in the farm supply group had negative net margins but heavy losses sustained by two of them with large grain marketing operations accounted for 98 percent of the losses. These two losses were mainly responsible for bringing the farm supply group's combined net margins down 100.4 percent from $167 million (highest of any group) in 1984 to a negative $0.7 million last year (fig. 6).

The grain group concluded the past 2 years in the red. Net losses exceeded net margins by $5.4 million in 1984 and $42.4 million in 1985. The 5-cooperative rice group made the biggest comeback last year. Net margins after losses were $19 mil-

Fig. 7—Top 100 Interest Coverage Ratios



[1] Net margins (net of operating losses) before interest and taxes divided by estimated interest expenses.

lion compared with finishing slightly in the red in 1984. All cooperatives in the group market rice on a pooling basis and use per-unit capital retains.

Net margins of the 32-cooperative dairy marketing group were larger in 1985 than any group although they totaled 2.3 percent less than the $116 million posted in 1984 (fig. 6). Four dairy cooperatives had losses in 1984 compared with only one last year. It ceased operations after its fiscal year ended. Its loss was more than three times as great as the other four cooperatives combined.

Seven associations in the diversified group had a 24 percent drop in net margins although a loss by one in 1985 was substantially less than those of two in 1984. Margins dropped more than 50 percent for one co-op that had record margins in 1984. Cotton margins were down 15 percent. A different co-op in the group of six showed a minor loss each year.

In addition to the rice group, the fruits and vegetables, sugar, and other product groups reported higher net margins in 1985 (fig.6). The fruit and vegetable group's 65-percent increase in net margins was due chiefly to one cooperative. It reported a seven-fold jump in margins. Thirteen of the 14 co-ops in the group market members' products on a pooling basis.

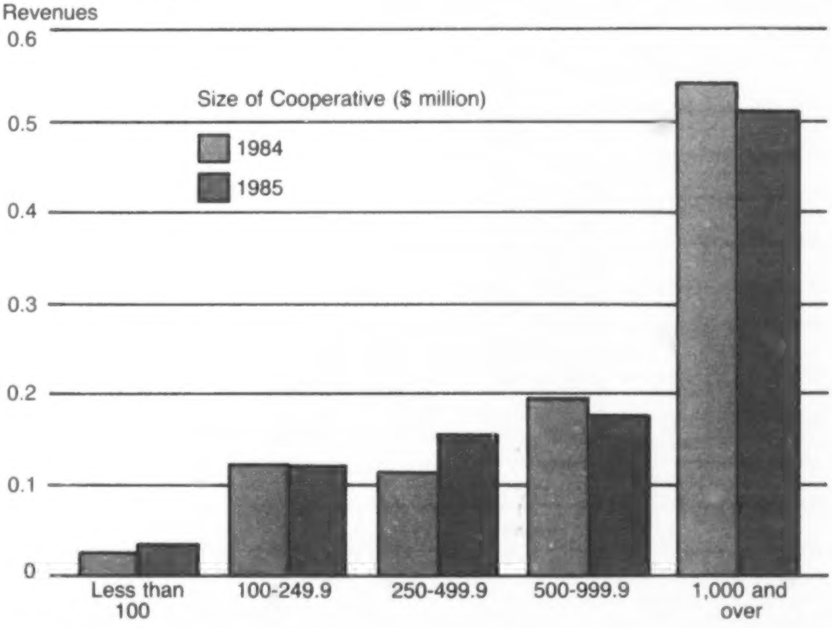
Margins of sugar cooperatives were up 5 percent in 1985 (four of five in the group marketed on a pooling basis). Co-ops in the other products group showed a strong gain in 1985 margins, up from $2 million to $6 million.

Interest Coverage Drops

The interest coverage ratio fell last year after increasing the 2 previous years (fig. 7). Last year's ratio was 1.37 compared with 1.58 in 1984. The drop was due primarily to the decline in net margins despite lower interest rates and outstanding debt.

The interest coverage ratio measures a firm's ability to meet interest payments and take on additional debt. It not only considers the amount of debt held by a company, but also the level of margins and interest rates. The 1985 ratio of the top 100 means for every $1 in interest expense, the cooperatives had $1.37 in net margins (before interest and taxes) available for payment compared with $2.18 in 1980.

Fig. 8—Top 100 Percent of Total Revenues by Size Groups, 1984 vs. 1985



Interest expense was estimated by multiplying the average Banks for Cooperatives' interest rates for seasonal and long-term loans by total short- and long-term debt outstanding at the end of the fiscal year. Seasonal or short-term borrowing expenses are understated for many cooperatives. Also, debt of pooling associations reporting no net margins is included in the calculation. Thus, the trend indicated in fig. 7 is more important than indidiual ratios.

Revenue Range of Largest 100

Revenues of the 100 largest cooperatives in 1985 ranged from $53.5 million to $4.1 billion (table 3). In 1984, revenues ranged from $63.2 million to $5.3 billion. Among the 100 largest cooperatives in 1985, there were 16 locals, 80 regionals, and 4 interregionals (table 3).

Twelve cooperatives had total revenues of $1 billion or more in 1984 and 1985 (table 4). Revenues of 14 cooperatives topped $1 billion in 1981, the peak sales year for all cooperatives combined.

Only a few cooperatives rank among the Nation's largest industrial companies. All but 1 of the 100 largest industrial corporations listed by *Fortune* had 1985 sales exceeding $4 billion. Only 1 farmer cooperative in 1985 and 2 in 1984 met this benchmark.

More cooperatives among the 100 largest (35 compared with 40 in 1984) fell into the $100-million to $249.9-million class than any other. Since 1980, most cooperatives among the 100 largest (56 in 1985) have had revenues between $100 million and $499.9 million.

Although more cooperatives were in the $100-million to $249.9-million class than any other, this group contributed only 12 percent of total revenues during the past 2 years. The 12 cooperatives with revenues of over $1 billion contributed the majority of total revenues (51 versus 54 percent in 1984) of the 100 cooperatives. At the other extreme, 20 co-ops with revenues under $100 million (16 in 1984) contributed only 3.4 percent of the total compared with 2.5 percent the year before.

Cooperatives in the top two categories (revenues of $500 million or more) play a dominant role among the top 100. Since 1980, their number has remained relatively stable (24 in 1985 and 27 in 1984). They produced 69 percent of 1985 total revenues of $47.2 billion versus 74 percent of $52.8 billion in 1984. ■

Table 3—Range in top 100 revenues by type of cooperative, 1984 vs. 1985

Revenues	Locals[1] (16)		Regionals[2] (80)		Interregional[3] (4)		All cooperatives (100)	
	1984	1985	1984	1985	1984	1985	1984	1985
	Million dollars							
High	221.8	251.9	5,295.5	4,078.1	908.0	920.9	5,295.5	4,078.1
Median	106.4	99.3	250.9	259.4	627.9	693.5	221.8	215.9
Low	79.4	57.0	63.2	53.5	343.4	335.9	63.2	53.5

[1] Centralized associations serving a local area, community, or one or several counties. May be affiliated with a regional or other cooperatives.

[2] Serve multi-counties or a number of States. Include federated cooperatives (except interregionals), centralized associations serving more than 8 counties, and large-volume cooperatives neither strictly federated nor centralized.

[3] Federations of mainly regionals.

Table 4—Distribution of top 100 by size of revenues

Sales and other income	1980	1981	1982	1983	1984	1985
	Number of cooperatives					
$1 billion or more	13	14	13	13	12	12
$500 million - $999.9 million	10	10	11	11	15	12
$250 million - $499.9 million	22	26	20	20	17	21
$100 million - $249.9 million	35	39	43	42	40	35
Less than $100 million	20	11	13	14	16	20
Total	100	100	100	100	100	100

Can Co-op Owners and Patrons Wear Different Hats?

The term "owner-patron" has been a long accepted axiom in cooperative circles. In recent years, there have been situations where patrons seem to have different interests. If that's the case, can both benefit from the traditional cooperative concept of returning savings to the patron?

What are and how can there be differences when the owner and patron is supposed to be the same person? The differences can be identified by comparing the role of an owner or stockholder of a cooperative with a patron or customer.

The owner or stockholder of a business should be the major risktaker.

Theoretically, the creditors and secured lenders aren't risktakers. Creditors provide goods or services prior to receiving payment, but their risk of losing their financial exposure can be limited. True, many creditors suffer losses from businesses going broke and failing to pay, but the supply creditor has the power to control that risk.

The secured creditors theoretically have legal claim to assets of sufficient value to repay their exposure plus interest. In many cases secured creditors suffer losses because the liquidation value of collateral failed to repay the debt. Business judgment created the loss and the same power could have avoided the loss.

Neither an unsecured creditor nor a secured lender to a cooperative intends to be in a risk position further than the opportunity for gain will justify. In most cases, simple interest won't justify taking a risk of loss.

If an owner or stockholder has the role of a risktaker, what opportunities for gain will justify the risk of loss?

In a cooperative, the opportunity for gain to stockholders is limited. Therefore, the degree of risk a stockholder should take also is limited. Who can take a risk for a cooperative faced with relatively high business risks?

Intangible Services

It has been argued members of a cooperative receive unmeasured intangible benefits to justify their risk exposure. In many cases, that's an established and accepted fact.

In some cases, intangible benefits aren't available to all members on an equitable basis and members aren't able or willing to be in a risk position to the degree or length of time necessary.

The patron or customer has the objective of obtaining quality goods or services at a competitive price. The cooperative's purpose is to provide quality goods and services at a level of efficiency that would create a savings and return them to patrons in the form of a patronage refunds.

As a customer, the member's interest is served if quality goods and service is provided equal to or better than competition whether or not there is a savings to distribute. As an owner, the member's goals aren't met unless there is an economic benefit received in relationship to the risk taken. A refund on patronage isn't always an equitable economic benefit to the risk exposure of each member.

Risk Management

A study of risk management indicates cooperatives with major investments in productive assets have two types of risks. One type is the ownership risks of the assets.

Benefits to the owner or stockholder of productive assets are directly related to capital employed, ongoing economic value of the assets, and effective operation of assets and other ownership benefits. These benefits must justify the risk of losing the use of capital employed in the ownership function. The other type is the risk of generating a positive cash flow from operating the assets.

Considering those observations, the purpose of some cooperatives may be better served if they only dealt with the business operating risk. The risktakers owning the assets could be given an opportunity of gain from sharing before asset ownership costs are deducted and the balance of the savings could then be distributed as a refund to patrons.

This doesn't necessarily propose outside ownership of assets with rent paid on a "through-put" basis. What about the objective of cooperative members controlling their business? If they were merely splitting the savings with a landlord they may not have control of their business. A cooperative must control the assets and business and have asset ownership costs be deductible and paid to those who have made direct investments in the assets.

To meet this last prerequisite, the idea of using a limited partnership structure was considered. The example being discussed is a Minnesota cooperative using a limited partnership structure.

William H. Moon
Vice President
The Cooperative Finance Association, Inc.

Operational and Financial Study

Management of the Lyon County Co-op Oil Company, Marshall, MN, recently studied its operational and financial trends. It concluded the operation was primarily limited to fuels and related merchandise and service. Future growth and savings potential was limited unless the business base could be expanded at an improved level of efficiency. The association already served a wide area so geographic expansion wasn't a solution. Business expansion in new products or services used by its members was the obvious answer.

A nearby facility owned and operated by an independent business served many of the cooperative's members with fertilizer and agricultural chemicals. Buying the business could be a solution except for two big obstacles. The cooperative's debt level couldn't comfortably accommodate additional debt for the total fertilizer business. Also, two neighboring cooperatives were in the fertilizer and chemical business and partially served that trade area. Merger possibilities didn't appear likely in the immediate future.

But if this fertilizer business could be purchased by any or all of the three cooperatives, it would have to be totally debt financed. Farmers in the area already had equity in three cooperatives. Little justification could be established to invest risk capital in another business venture that would only serve part of the total membership directly.

If these three cooperatives capitalized an "inter association" cooperative with farmer-members being the patrons, there was no way for the three to realize a return on their investment because earnings would be paid direct to the farmer-patron. If it were structured so the three cooperatives were the patrons, each transaction would still create a patronage transaction. Savings would flow through to the farmer-patron without recognizing the capital investments of each cooperative.

Form Limited Partnership

A solution was found by creating a limited partnership entity called MGM Farmers Limited Partnership. MGM stands for the communities of Marshall, Ghent, and Milroy, MN.

Each of the three cooperatives purchased a limited partnership share of $50,000. A new farmers' cooperative was organized providing for both producer members (Class A) and cooperative members (Class B). The new cooperative was named MGM Farmers Cooperative and it became the managing general partner of MGM Farmers Limited Partnership.

The cooperative was organized on a base capital equity plan so each Class A-member would have $1,000 in equity before being a fully paid member. Each Class B-member would be required to have $10,000 in equity.

The cooperative as the managing general partner, has full control and decisionmaking responsibilities over assets of the partnership, but the partnership will receive a percentage of the general partner's sale and savings based on an established formula. The remaining savings after paying the partnership, will be allocated to patrons of the co-op.

The limited partners will share the income and expenses of the partnership. As business grows, the original $50,000 investment of each partner could show a good return. If an unexpected and continued lack of business growth is experienced, the three limited partners can realize very little or no return. If they experienced a deficit, the limited partners must decide to increase their investment or liquidate the assets.

The cooperative will be faced with the risk of maintaining a positive cash flow only on the buying and selling of product. Its obligation to service the cost of the assets are related directly with its volume of business. If little volume is generated, costs for having the use of assets will be small.

Here are some of the unusual features in this type of organization:

- The investors in the assets will be more mindful of the need to have a return on the capital employed in the assets. If there is a submarginal return, only the investors in the assets can decide to exit the business and liquidate their investment.

- As the operator of the business, the general partner can concentrate on business development and established criteria for attaining a required cost-to-assets-employed objective. It will tend to find ways to maximize the efficiencies of other operating costs such as manpower, inventory, and receivables. It has no borrowing capacity except inventory and current collectible accounts receivable. So it must keep its assets productive. As a result, it should operate on a more efficient level than competition, thereby creating the possibility of developing savings for its farmer-members.

- Profits from the partnership can flow directly to each partner on a single-tax basis.

- Overall efficiencies will develop by pooling manpower, equipment, bookkeeping, technical services, and other areas. ■

Co-op Share of Marketing Volume Grows in Billion Dollar States

Editor's Note: States with more than $1 billion of farmer cooperative business account for 80 percent of these organizations' total business. Characteristics of the business in these 20 States were described last month. This article looks at changes in farming patterns in the billion-dollar States and the effects they may have on cooperatives.

Cooperatives in billion-dollar States in the Middle Atlantic and North Central regions handled larger shares of both farm supplies and products marketed when compared with other regions. The two regions together accounted for more than 60 percent of farmer cooperative business. Extensive farm restructuring is underway in States within those regions. Any effect this has on their cooperative business share may thus be of major consequence for overall cooperative business in the United States.

Share gain for the billion-dollar States was 62 percent in farm supplies compared with 67 percent overall for the U.S. (table 1). The share gain for marketing was 50 percent in both the billion-dollar States and the U.S. In view of the larger business bases that had to be built on, growth in the billion-dollar States has more than kept pace.

Farm Composition

The billion-dollar States contain about 65 percent or 1.5 million of the Nation's total farms (table 2). Middle Atlantic and North Central farms accounted for more than two-thirds of the billion-dollar State total.

Bruce L. Swanson
ACS Agricultural Economist

(Second in two-part series)

A breakout of small, medium, and large farms shows some difference proportionally among the billion-dollar State regions (table 3). Middle Atlantic and North Central regions had higher concentrations of medium-sized farms, while small-sized farms dominate the South Atlantic and South Central regions. The proportion of larger farms was considerably smaller in the billion-dollar States of the South Central region. About two-thirds of the farms in the billion-dollar States are small. The rest are about evenly divided between medium and large sizes.

Recent Restructuring

Cooperatives will have to consider how farm resizing may affect their shares of business. University of Missouri figures showing farm restructuring during the 1978-82 'boom to bust' changeover in agriculture, indicate the falloff of medium-sized farms and the gain in small and larger farms (table 4). Given the worsening trend, these changes probably continued at the same or greater rate since 1982.

A strong membership component of most cooperatives has been mid-

Table 1—Cooperative share of market in billion-dollar States, by geographic sector, 1951 and 1981

	Farm Supplies		
Area[1]	1951	1981	Increase
		Percent	
Middle Atlantic	26	41	57
North Central	14	25	79
South Atlantic	5	9	80
South Central	5	8	60
Pacific	9	9-	
All Billion Dollar States	13	21	62
All U.S	12	20	67

	Marketing		
Area[1]	1951	1981	Increase
		Percent	
Middle Atlantic	25	33	32
North Central	24	38	58
South Atlantic	14	24	71
South Central	11	19	73
Pacific	25	29	16
All Billion Dollar States	22	33	50
All U.S.	20	30	50

[1] See Table 4 for States included.

sized farmers. They have been highly supportive of cooperatives because the strength in numbers gave them marketing and supply margins unattainable as individuals. Mid-sized farmers, those with 50 to 999 acres, are now most prone to go out of business or be absorbed into larger units. Farmers with 180 to 499 acres in the "middle" of the mid-sized group, decreased in all 20 of the billion-dollar States. The "smaller" mid-sized farmers (50 to 179 acres) decreased in 17 of these States, and the "larger" mid-sized farmers (500 to 999 acres) decreased in 12. Any changes in cooperative business caused by mid-sized farmer dropout would probably be tempered, of course, by absorption of their units by larger farmer members. Continuance on part of their acreage as part-time farmers would also moderate the trend.

The number of small farms (1 to 49 acres) increased in all of the 20 States, while the number of large farms (1,000 acres plus) increased in 14. Only four of the billion-dollar States—California, Florida, Texas, and Washington—showed a net gain in number of farms when all sizes were considered.

Future Effects

The agricultural recession is masking the effects farmer dropout may be having on cooperative businesses. It seems likely the mid-sized group of farmers will decline most. For cooperatives, the critical issue will be offsetting the business loss from this group with gains from the part-time and large-farmer groups plus entry into new activities. This may involve taking on considerably more risk.

There were almost 274,000 medium-sized farms ($40,000-$99,999 sales) in the billion-dollar States in 1982. More than half were in the North Central region.

A recent major study estimates the number of medium and small farms may be halved by the end of the century. A 5-percent annual loss figure, and a 15-year projection were used to determine what could happen if this eventuality occurred. Lesser loss rates and shorter timespans also were selected to show what the effects would be if the change were not so drastic. Losses ranged from 12,986 medium-sized farms at the end of 5 years at an annual rate of 1 percent to 142,201 farms with the 15-year and 5-percent annual loss calculations.

Translating farm losses into possible business losses for cooperatives can

Table 2—Number of farms in billion-dollar States, by geographic sector, 1984

Area[1]		Billion-dollar State total	U.S. total
	Number	*Percent*	
Middle Atlantic	106,000	7	5
North Central	955,000	63	41
South Atlantic	91,000	6	4
South Central	242,000	16	10
Pacific	116,000	8	5
All Billion Dollar States	1,510,000	100	65[2]

[1] See Table 4 for States included.
[2] Total U.S. farms in 1984 was 2,332,600.

Table 3—Size composition of farms in billion-dollar States, by geographic sector, 1982

Area[1]	Farm Size by Annual Sales		
	Small (LT $40,000)	Medium ($40,000-$99,999)	Large ($100,000 or more)
		Percent	
Middle Atlantic	66.9	18.1	15.0
North Central	61.8	21.4	16.8
South Atlantic	75.9	9.7	14.4
South Central	82.1	8.4	9.5
Pacific	70.9	10.7	18.4
All Billion Dollar States	65.9	18.1	16.0
All U.S.	71.6	14.9	13.5

[1] See table 4 for States included.

be only roughly estimated. Using 1983 figures for cooperative volume handled in the billion-dollar States provides some base estimates subject to adjustment as events unfold to the end of the century.

About $13 billion of the total $53.4 billion handled by cooperatives in the billion-dollar States in 1983 can be assigned to medium-sized farmers. Medium farmers generate about nine times more business than small farmers, and large farmers account for about three times as much business as medium farmers.

Allocating $13 billion over the number of medium farms in the billion-dollar States results in an average figure of about $49,000 per farm in cooperative marketing, purchasing, and service business in 1983. Applying this to the number of medium-sized farms disappearing would result in estimated yearly losses ranging from more than $600 million to $7 billion, depending on the rate of loss and length of time period encompassed.

The size of actual losses will depend, of course, on overall economic conditions in agriculture and the rest of the country and how they affect cooperatives until century end. Also impacting will be the extent to which continuing cooperative patrons pick up the operations of those dropping out. However, it seems safe to assume cooperatives need to make major efforts to override the loss of medium farm business by shifting more of their attention to servicing part-time and large farmers and developing value-added markets.

Courses to Follow

Capturing the business of large farmers will require much more emphasis on handling large volumes, bulk deliveries, and operating on

Table 4—Change in number of farms in billion-dollar States, by geographic sector, 1978-82

Area	Size of farm (acres)						
	1-9	10-49	50-179	180-499	500-999	1,000+	Total
	Percent						
Middle Atlantic:							
New York	13.6	18.9	-6.3	-8.8	-1.0	25.0	-2.0
Pennsylvania	19.7	13.0	-6.9	-6.1	4.3	23.3	-1.2
Average	16.7	16.0	-6.6	-7.5	1.7	24.2	-1.6
North Central:							
Illinois	25.2	6.5	-11.8	-14.5	-1.0	26.2	-5.9
Indiana	22.6	1.2	-13.0	-14.2	0.2	31.5	-6.4
Iowa	19.7	8.6	-11.3	-11.0	5.3	29.1	-4.9
Kansas	11.4	27.1	-1.5	-6.7	-8.5	1.4	-1.2
Michigan	37.6	13.3	-11.9	-9.9	6.4	27.6	-2.9
Minnesota	30.9	19.2	-9.3	-11.3	0.1	16.6	-4.3
Missouri	9.5	20.8	-5.6	-10.1	-5.2	11.0	-2.2
Nebraska	8.5	13.1	-7.8	-13.1	-4.2	0.2	-5.5
North Dakota	7.0	26.6	-10.8	-16.8	-17.1	-3.3	-9.7
Ohio	23.9	12.0	-8.3	-11.8	2.8	27.6	-2.5
South Dakota	11.0	29.5	-2.3	-12.3	-8.4	-0.6	-4.1
Wisconsin	36.5	8.6	-12.6	-6.5	5.5	17.9	-5.0
Average	20.3	15.5	-8.9	-11.5	-2.0	15.4	-4.6
South Atlantic:							
Florida	14.8	6.5	-7.7	-9.6	-10.5	-2.1	0.7
Georgia	8.6	13.1	-8.0	-12.3	-8.1	-4.6	-3.5
Average	11.7	9.8	-7.9	-11.0	-9.3	-3.4	-1.4
South Central:							
Arkansas	9.5	11.1	-5.2	-8.7	-6.2	0.6	-2.4
Texas	43.3	47.3	2.6	-7.2	-8.3	-4.5	5.5
Average	26.4	29.2	-1.3	-8.0	-7.3	-2.0	1.6
Pacific:							
California	39.8	10.0	0.8	-1.3	2.5	1.5	12.7
Washington	54.4	28.5	4.3	-2.4	-3.8	-5.1	16.3
Average	47.1	19.3	2.6	-1.9	-0.7	-1.8	14.5
Average—Billion Dollar States	22.4	16.7	-6.6	-9.7	-2.8	11.0	-1.4
Total U.S.	24.1	14.9	-6.2	-9.5	-4.3	1.5	-0.7

slim margins. Services offered in conjunction with operating activities will assume much more importance in business viability. Becoming and staying competitive in the technology areas will also be essential, particularly those involving computerization and plant and animal biology. Membership approaches will likely shift more to equitable (versus equal) treatment.

Cooperatives need to take a stronger look at how best to serve the part-time farmer. While their purchases may be minuscule when compared with large farmers, when measured as a group, the products and services they require may provide very high margins. The specialized items offered to override the time constraints they have for farming may provide considerable potential for additional margins.

The value-added market will have to take up some of the slack left from farmers quitting and cooperatives left with stable or declining markets for basic products. To ensure future growth, both cooperative management and members may have to assume much more risk in moving their organizations into new business arenas, securing added financing, and making or expanding new types of intercooperative arrangements. ■

Food Aid, Market Development, Links to U.S. Ag Growth

The United States can improve its prospects for future growth in farm exports by linking food aid with long-term market development efforts. Given proper incentives, farm groups and agribusinesses will commit their creative energies to help build foreign economies and develop better customers for U.S. farm products, an expert on cooperative development recently told the Senate Agriculture Committee.

Vern Freeh, vice president of international development and governmental affairs for Land O'Lakes, Inc. (LOL), Minneapolis, MN, called for closer coordination between Government and the private sector. "International development programs, technical assistance, and trade policies are far too important to be left to the Government alone.

"When there's an emergency and people need food, we should provide it. But we also should have a plan for moving starving nations from food aid to a program of monetizing food aid and supply technical assistance as quickly as possible," he said. Monetization involves giving raw commodities to developing nations. They process the commodities into food and sell it in domestic markets. Proceeds from such "monetized" commodities are earmarked for projects to develop the nation's economy, thus improving its ability to become a commercial customer for U.S. products.

LOL has used the monetization concept as part of a project it designed in Jamaica. The cooperative created and sits on the board of a foundation in Jamaica. It provides loans and venture capital for agricultural projects on the island. Under the Food for Peace program, the U.S. gives bulk butter and cheese to the foundation. Revenues generated from processing and selling the products in Jamaica will provide $35 million to $50 million in capital for the foundation during the next 10 years.

Congress specifically earmarked $5 million in the Foreign Assistance Act of 1985 to replicate the concept. LOL is using part of those funds to improve the dairy industry in Guatemala. It also will play a role in administering the unallocated portion of the earmarked funds.

Freeh said LOL has worked with Agency for International Development and three land-grant universities on a project in Belize. The cooperative provided project guidance and technical aid in an effort to help Belizian farmers form a cooperative, build a milk plant, and begin marketing fluid milk. Similar efforts in Ecuador use surplus nonfat dry milk to stimulate progress in its dairy industry.

Iowa Co-ops Buy Agri Elevator

Members of Agri Industries, Inc., Des Moines, IA., have overwhelmingly approved the sale of the 6.5-million-bushel Avon grain terminal to the 12 Iowa co-op elevators organized last February as the Avon Grain Company. Of the 310 eligible voting members, 132 submitted ballots, with 115 favoring the proposal. The new proposal included a 5-year leasing agreement for the unused elevator owned by Agri. Avon will also take over the terminal and nearby rail car repair shop for more than $3 million.

COOPERATIVE ACTION

Group Forms Beef Marketing Co-op

Completion of a 5 1/2-month study of the cattle industry has resulted in the formation of a beef marketing cooperative, according to Bill Schermer, coordinator of Better Beef Marketing (BBM), Inc., Ames, IA. The new organization doesn't plan to compete directly with food retailers, wholesalers or packers, but form strategic alliances with smaller packers and potential beef marketers. Its top priority is establishing specialized franchise retail outlets. The co-op plans to target the institutional food trade market.

Members will be put under contract to supply specific quantities and qualities of cattle to meet the needs of buyers. The co-op will be responsible for making slaughtering and processing arrangements for the cattle and then for selling the "select" beef into certain "market niches." The co-op will need to attract 10,000 cattlemen within the next year to raise the $3.5 million needed for startup capital. Another $75 to $100 million, he added, will be needed for on-going capitalization of the project. Schermer said funding will come from membership dues and investors in BBM as well as loans obtained by the co-op. BBM is a project spearheaded by Mel Potter, Arizona cattleman and Wisconsin cranberry producer, who has proposed the cattle industry form a co-op fashioned after Ocean Spray in the cranberry industry.

Iowa Co-op, ADM Form Feed Venture

Albert City (Iowa) Elevator (a cooperative), and ADM Feed Corp., Decatur, IL, have formed a joint venture that will own the Sheldon, IA, feed mill formerly owned by ADM. The venture will provide the co-op with ownership interest in a plant to partially replace lost capacity in a December 1985 fire.

CENEX Communications Earn National Honors

Marketing Insight, published by CENEX for affiliated local cooperative directors and managers, has been rated the nation's top agribusiness internal publication in the 1985-86 National Agri-Marketing Association's (NAMA) award competition. The publication, edited by Susan Winsor, added the NAMA "Best of Agriculture" award to its previous recognition as the "Best in Cooperative Communication" in the 1985 National Council of Farmer Cooperatives (NCFC) information fair. In addition, *Marketing Insight* was chosen by NCFC as the top directors' publication in both 1985 and 1986. The magazine frequently deals with controversial and sensitive issues, and features quality photographs by David Lundquist, photography supervisor. In its second year, the quarterly publication reaches more than 5,000 directors and managers at CENEX affiliated local cooperatives in 13 states across the Midwest and Pacific Northwest. "CENEX Plant Food Department," an audiovisual presentation outlining plant food production and distribution capabilities, recently earned top honors in the single-screen slide show category in NAMA competition. The audiovisual effort, produced by Lundquist and Bruce Senst, central plant food sales manager, was designated "Best of Agriculture."

New Wisconsin Ag Secretary a Cooperator

Howard C. Richards, a director of MSI Insurance at St. Paul since 1980 and a member of its executive committee, has been appointed Wisconsin Secretary of Agriculture. Richards is a farmer in Lodi, WI. He has been a trustee of the American Institute of Cooperation; director and secretary of the Columbia County Pork Producers; former director of the National Council of Farmer Cooperatives; and member of the Rio Farmers Union Cooperative, Community Co-op Services at Madison, and Equity Co-op at Baraboo. He also is on the advisory board of Central Livestock Association. He was president of the St. Paul Federal Intermediate Credit Bank from 1973 to 1980.

Union Equity Posts $4 Million Net Margin

Union Equity Cooperative Exchange (UE) Enid, OK., recorded a net operating margin of $4 million in fiscal 1985 despite a big drop in export sales and startup costs related to the acquisition of Far-Mar-Co from Farmland Industries, Inc. William R. Allen, Jr., executive vice president and general manager, observed, "While we didn't set any records in sales volume or in earnings, 1985 has to rank as one of the most successful and strategically crucial years in the cooperative's 60 years of existence." The Far-Mar-Co transaction, effective late last spring, more than doubled UE's grain storage, increased its grain origination area and membership, and boosted the number of its elevator facilities from 6 to 17. Margins were 10 percent below 1984 and well under the $12.1 million record posted in 1983. Allen said the cooperative's increased ability to serve domestic markets from its newly acquired facilities was important at a time when grain export sales were down. Export sales volume dropped from 131 million bushels in 1984 to 78 million in 1985, in keeping with the national export decline. Grain volume reached a record 253 million bushels, but total sales of $416.7 million were off 31 percent from 1984 because much of the grain went into storage under the Government loan program, Allen reported.

NCBA Studies Egypt's Food System

National Cooperative Business Association (NCBA), Washington, DC, with financing from the Agency for International Development (AID), has begun analyzing Egypt's food distribution system. The analysis is designed to generate information and basic design elements for development of an improved commodity distribution system. The four-member team will assess the current food distribution network and projected growth in food distribution based on population, production, and consumption projections. The team is headed by Dr. Filmore E. Bender, an economist and associate director of the Maryland Agricultural Experiment Station of the University of Maryland and author of the book *Systems Analysis for the Food Industry.*

SSC to Repeat Videoconference

Southern States Cooperative (SSC), Richmond, VA, will repeat last year's experiment and videoconference its 1986 annual meeting Nov. 19. Cost reductions, overwhelming approval of members who participated last year, and involving more patrons in the meeting were three reasons cited. Three downlink sites will be added in North Carolina this year reflecting the addition of former FCX territory. The 10 sites plus the "home" location at Richmond from last year will be continued. SSC is the first regional cooperative to use the new technology for an annual meeting.

Eastern Opens Fourth Retail Store

Eastern Milk Producers Cooperative Association has opened its fourth retail store. The store at Troy, PA, like the first three, will sell bulk and cut cheese varieties, meat products, and both dip and soft ice cream. It will have a deli and serve subs, pizza, and hot dogs. An additional feature will be a lunch and dinner "smorgasbord" of hot and cold foods. Earl Forwood, president of the 4,000-member cooperative, said "Eastern's long-range plans call for the periodic opening of retail stores in strategic locations to serve our membership and the public." In other news from the dairy cooperative, members have been paid a patronage refund for the fiscal year ending March 31. Forwood said record margins enabled the organization to issue the "13th (month) milk check" dividend to members based on milk shipped during fiscal 1985. General Manager Michael H. Donovan said more than $214,000 was paid by the cooperative in redeeming members' equity. Two hundred eighty-six of the cooperative's members, who either retired or left dairy farming, shared in the record redemption.

NY Plans Co-op Education

An agricultural cooperative education program to acquaint directors, members, and management with cooperative finance, marketing, and management will be financed by a $50,000 appropriation included in the 1986-87 budget for New York State.

Tour Co-op Projects in Mideast

A tour of projects in Egypt and the West Bank this fall is planned by directors and members of Agricultural Cooperative Development International (ACDI), an affiliate of the National Council of Farmer Cooperatives. ACDI's small farmer production project has been judged by the Rural Development Institute as the "single most successful AID-supported agricultural project we have seen anywhere."

Co-ops Experiment in Learning by Satellite

Several major Canadian Co-op organizations have pooled resources to experiment with a satellite-based "distance" learning project. Co-operative College of Canada, Saskatchewan Wheat Pool, Saskatchewan Credit Union Central, Federated Co-operatives Limited, and the Saskatchewan Department of Co-operation and Co-operative Development have formed a co-operative network to take part in a major consortium of educators. The network will be conducting programs in delegate development, employee orientation, co-op, and co-op information among others.

Countrymark Joins Seed Group

Countrymark, Inc., of Columbus, OH, has joined with 12 other Ohio firms to form Agricultural Genetic Research Association (AGRA), an organization to develop better crop varieties. Purpose of AGRA is to take the best crop varieties developed by various plant breeders and place them in performance trials to select the very best varieties. Members will then produce seed of these superior varieties, for sale to farmers.

CENEX Adopts Seed Research Program

The CENEX seed department is developing a research and testing center as part of an expanded research effort over the next several years. First test plots will be planted next spring at five Midwest locations for corn and soybeans. Trials in the Pacific Northwest will include barley, alfalfa, and wheat. A computer data analysis system also is being developed so local cooperatives can make available specific hybrid comparisons and show hybrid performance in different soil types by geographic area or special situations.

Morning Glory Products Recognized

Both sour cream and buttermilk products manufactured by Morning Glory Dairy Farms, Shawano, WI, have earned "Certificates of Excellence" in product evaluations recently during the 1986 annual meeting of the American Cultured Dairy Products Institute.

Eye New Canada Co-op Organization

Delegates at Co-operative College of Canada's annual meeting approved creation of a special committee to develop a rationale, framework, and plan for a proposed new national organization that would include but not be limited to the current functions of the Co-operative College of Canada and the Co-operative Union of Canada. In further action, the board of governors approved the appointment of Myrna Barclay as acting chief executive officer of the college following the resignation of Gerald Schuler, the college's executive officer of the past 5 years.

LOL Forms Foods Venture Unit

Land O'Lakes, Inc. (LOL), has formed a new unit within its foods group to pursue joint ventures with other food companies. LOL has existing joint ventures with dairy and soybean processing companies, including Lea Foods and Norris Creameries. The cooperative's strategy is to increase efficiency and volume but curtail costs.

Eastern Offering Members Cash Bonus for Quality

Eastern Milk Producers Dairy Cooperative, Syracuse, NY, is offering a new quality bonus to dairy farmers. President Earl Forwood said the bonus would amount to 5 cents per hundred pounds of milk shipped, and could mean an extra $400 a year to the average member. The new bonus is available to nearly all of Eastern's 4,000 dairy farmers, said General Manager Michael Donovan. "Previous bonuses were available only to members who shipped to certain cheese customers who paid incentives. To qualify for the bonus, farmers must meet higher quality standards for raw milk. The program is intended to encourage even better results for production reasons. In the case of cheese manufacturing, he said, higher quality milk will result in greater cheese yields.

Inter-State Advances Payment Date

Members of Inter-State Milk Producers' Cooperative, Southampton, PA, will receive their first payment from the cooperative's capital retain program a year earlier than expected, according to President Robert B. McSparran. Directors advanced the date of the first payment from February 1988 to February 1987 to cover the period of Nov. 1, 1981 through July 31, 1982. General Manager Paul E. Hand said anticipated margins for fiscal 1986 were expected to top $2 million. Inter-State began its capital retain program Nov. 1, 1981, to increase the net worth and improve the equity position of the cooperative. Members pay into the program at a rate of 10 cents per hundredweight.

Riceland Rebuilding Soy Plant

Riceland Foods, Inc., is rebuilding and modernizing its soybean plant at Stuttgart, AR. The $3 million project will replace plants built in 1960 and 1968. Completion is expected by the beginning of soybean harvest in mid-October. Riceland's edible oil refinery will continue to operate at capacity during the construction.

Delta Catfish Adds Processing Capacity

Delta Catfish Processors, Indianola, MS, gained the majority of fresh catfish processing capacity in the Mississippi Delta after the purchase of two private processing and marketing plants. The co-op's operation was featured in the February 1986 issue of *Farmer Cooperatives*. UPI news wire subsequently picked up part of the story.

CF Publication Suspended

CF Industries, Inc., at Long Grove, IL, has suspended publication of its internal company magazine, *Salem Lake Currents*, as a cost-cutting measure.

Co-op CEOs Need to Manage People Better, Survey Shows

Editor's Note: It takes special skills to manage a cooperative, so from time to time it's helpful to examine and sharpen those management skills outside the realm of the balance sheet. Ken Redfern, management consultant in the Resource Development Center of the Omaha Farm Credit Banks, discusses one particular approach.

Are you the super manager, the one-man band who tries to do everything? If so, you're in the company of many other co-op managers today. Recently, 100 Midwest co-op managers participated in a special management assessment program. It brought to light some interesting evidence to help co-op managers become aware of the skills needed to face challenges and changes confronting them.

How are co-op managers running their companies? The composite scores of managers who participated in the program show they rated high in vital skills such as managing the budget, achieving organizational objectives, surfacing new ideas for company improvements, and making effective resource allocation decisions. This suggests general managers do well as they attempt singlehandedly to run the entire show like a one-man band.

Developing and Using Staff

But does that kind of leadership work for today's cooperatives? Such independent leaders performed well in the past when the environment was stable, predictable, and slow to change. But today's managers can no longer operate under the old rules. New cooperative leaders must orchestrate functions like marketing, sales, purchasing, finances and accounting, human resources, and risk.

Where are today's co-op managers missing the beat? The program revealed a major weakness in people management skills. Responses from more than 550 co-op employees and board members, who completed questionaires for those 100 co-op managers, agree the managers don't exhibit very effective skills in developing and using their staffs. Managers got low marks in conducting performance reviews, setting standards of performance, delegating, helping subordinates establish objectives, resolving conflicts between people, and appropriately staffing the company.

How will the co-op manager orchestrate to achieve a maximum effect? Managers must utilize all resources effectively and adopt team management. They need to manage both people and physical assets. And those people assets are seeking and even demanding more involvement in the various activities of the co-op. Many co-op employees are college graduates with specialties in agronomy, marketing, and data processing.

They understand the co-op must be profitable to succeed and also know the job can't be done entirely by the general manager. They want to contribute to the cooperative's success; provide input into the development of corporate objectives; participate in development of marketing strategies; help analyze the feasibility of various projects; and want responsibility and accountability for that part of the operation for which they have special skills.

The program is helping managers obtain feedback from those with whom they regularly interact. This feedback measures a variety of management skill areas such as communication, delegation, leadership, entrepreneurship, planning, decisionmaking, handling disturbances, and performance standards. Using questionnaires completed by about a half dozen people (board members and staff), perceptions of the group are tabulated on a computer printout. Armed with that information and written comments from those who completed the questionaires, managers have sufficient data to discover what they do well and where they need to improve to meet the expectations of their groups as well as themselves.

Managers who participated in this process discovered their individual strengths and weaknesses and developed action plans around these discoveries. One recent participant said it best. "Every manager needs to go through the process if he is genuinely concerned about maximum performance and self-improvement."

Descriptive Process

Because the process is "descriptive" rather than "prescriptive," there are no right or wrong answers. Learning and understanding how their management skills are perceived can bring about change. Managers can determine if changes in their skills would result in a more productive working relationship. Once action plans are complete, managers are encouraged to review plans with their employees and boards so all are aware of how these managers plan to work more effectively.

It's important to recognize every manager has individual strengths and weaknesses. Therefore, individual managers shouldn't be compared with the composite of the 100 managers who participated in the recent series of programs. This program is specifically designed to discover a manager's greatest managerial skills as well as areas for improvement.

PEOPLE NEWS

At MSI Insurance. . .

Donald R. Armstrong, president and general manager of Universal Cooperatives, Inc., at St. Paul, has been elected to a 3-year term on the insurance cooperative's board of directors by delegates to MSI's annual meeting. Armstrong has been a director of the National Council of Farmer Cooperatives for 13 years, Farm Credit Leasing Corporation, Agricultural Cooperative Development International, and is director and vice chairman of National Cooperative Business Association. He also is a trustee of the Graduate Institute of Cooperative Leadership.

Gerald Schuler. . .

principal of the Co-operative College of Canada (CUC) since 1981, has joined the Co-operative Union of Canada to head its international development activities. He was on CUC's international program review committee and active in international development activities in the Third World for CUC. He also represented CUC on an extensive UNESCO study of cooperatives in Europe. Schuler is a board member of the Co-operative Education Foundation' University of Saskatchewan Centre for Cooperative Studies' Association of Cooperative Educators, and Canadian Association for Adult Education.

Burgee Amdahl. . .

president and chief executive officer of Farm Credit Services of St. Paul, the centralized management agency for the district's Federal Land Bank, Federal Intermediate Credit Bank, and Bank for Cooperatives, retired June 30 after 25 years' service in the Farm Credit System.

At Virginia Co-op Council. . .

new directors elected to the board are James Cisney, general manager, Rockingham Cooperative Farm Bureau; Jerry Gass, director of corporate communications and public relations, Southern States Cooperative (SSC); William McAnulty, member and public relations adviser, Shenandoah Valley Electric Cooperative; and Thomas Byerly, vice president, Staunton Farm Credit Associations. Two directors were appointed to fill vacancies, Cecil Viverette, Jr., staff assistant, Rappahannock Electric Cooperative, and Raymond Works, SSC regional manager. Council officers for 1986 are Rodney Phillips, president; Hugh Westfall, vice president; and Gass, secretary.

At 21st Century Genetics. . .

Ken Leick, Strafford, WI, dairyman, is the new board president of the Nation's largest, direct-member, farmer-owned cattle breeding cooperative. Leick becomes the first to preside over the cooperative's new operation after consolidation of Midwest Breeders Cooperative and Minnesota Valley Breeders Association. He succeeds Robert Damm. Leick was second vice-president of the interim board. Other new officers are Bernard Danielson, first vice president, and Lyle Tjosaas, second vice president.

Harry Laszewski. . .

legislative relations director in Wisconsin with Associated Milk Producers Inc. (AMPI), recently retired after serving the cooperative and its predecessor organizations for 40 years. Laszewski was recently honored for his commitment to the industry and AMPI by AMPI Wisconsin/Upper Michigan Women. He received the organization's ambassador of agriculture award. He began his cooperative career with working for Pure Milk Products Cooperative at Fond du Lac, WI, a predecessor of today's AMPI.

At Agri-Mark. . .

Agri-Mark's board of directors has elected new officers, due to the August 1 retirement of chairman Louis P. Longo. Philip Coburn, is the new chairman; Norman P. Harvey, vice chairman; and Carl Peterson, treasurer. Robert Foster was elected to serve on the executive committee. Longo held the top position for Agri-Mark and its predecessor dairy cooperatives for the past 22 years and was a recognized leader in the Northeast and national dairy industry.

Coburn is a dairy farmer from Corinna, ME. He has served as the vice chairman of the dairy cooperative since its formation in 1980. He also served as vice chairman of Agri-Mark's predecessor cooperative, Yankee Milk. Coburn is a director of the National Milk Producers Federation and Milk Promotion Services, Inc. He also is a member of the advisory committee to the dean of the University of Maine's College of Agriculture and Life Sciences.

Roger Baccigaluppi. . .

California Almond Growers Exchange president, has been reappointed to a 2-year term on President Reagan's Advisory Committee for Trade Negotiations.

Dr. Randall Torgerson, left, ACS administrator, recently was honored by the national Association of Cooperative Educators with a Distinguished Service Award for "outstanding contributions to the advancement of professional cooperative education and training." He was the closing speaker at the conference. Extending the honor is John LeClare, Saskatchewan Wheat Pool.

At U.S. Department of Agriculture. . .

Kenneth Gilles has been appointed assistant secretary for marketing and inspection services. Among the USDA agencies under his responsibility is the Agricultural Cooperative Service. He replaces Raymond Lett who subsequently left Government service and more recently Alan Tracey, the acting assistant secretary. The new press secretary for Agriculture Secretary Richard Lyng is Lynne Melillo, former press secretary for Sen. Sen. Mitch Mc Connell (KY).

At Farmland Industries. . .

major changes in the management and corporate structure have been announced by president-elect James L. Rainey who succeeded Kenneth Nielsen. Robert H. Wakefield was named executive vice president of foods and feed and Robert E. Johanson, executive vice president of administrative services. Garvin Matthiesen has been named executive vice president responsible for petroleum and fertilizer operations. Harry D. Cleberg heads Farmland Foods, Inc., a pork processing subsidiary with plants in Nebraska and Iowa, to succeed John Westerhoff. Gary E. Evans becomes vice president and general manager of feed. Both report to Wakefield. George H. Richter becomes vice president and general manager of petroleum, TBA, and lubricants. W.J. (Jack) Harwell has been named vice president and general manager of fertilizer and ag chemicals operations. Responsibilities of Earl L. Knauss, financial vice president and treasurer, and Stephen P. Dees, vice president and general counsel, remain unchanged.

Donald C. Storhoff. . .

president of Wisconsin Dairies Cooperative, Baraboo, WI, has been elected first president of the American Dairy Products Institute (ADPI) established as the result of a merger of American Dry Milk Institute (ADMI) and Whey Products Institute (WPI). The new trade association represents the processed dairy products industry. Storhoff served as president of the WPI in 1985. Also elected was Alfred J. Freisem, Michigan Milk Producers Assn., Adrian, Mich., president-elect.

Stephen J. Swift. . .

has been promoted to vice president and treasurer of the finance department at the Baltimore Farm Credit Bank. Swift represents the Baltimore district on the Farm Credit System's credit and operations subcommittee, and serves on the board of directors of the Farm Credit Finance Corporation of Puerto Rico.

Larry Kallem. . .

has been chosen by the board of directors of the Iowa Institute of Cooperation to become executive director Sept. 1, 1987. The action was triggered by the impending retirement of Gerald Pepper. Kallem has been director of education for the institute for the past 9 years. He is a graduate of Iowa State University in agricultural business, a member of the Board of Trustees of the American Institute of Cooperation, and president of the Huxley Telephone Cooperative's board of directors.

Larry Busboom. . .

Lafayette, CA, has been named as the new chief financial officer of Sun-Diamond Growers of California replacing William K. Dabney. Busboom will be responsible for all financial operations of the cooperative and serve as a senior vice president. Busboom spent 14 years with Crown Zellerbach in San Francisco where he was vice president and corporate controller.

Despite Adversity, Rural Electric Co-ops Build Strong Member Relations Program

Editor's Note: Theme of the 1986 Eastern Member Relations Conference, "Building Cooperative Relations During Adversity," was covered by the author from the perspective of rural electric co-ops. Many of the agricultural cooperatives have had or may yet have similar parallel experiences in dealing with a new mix of patrons.

Beverly C. Hawkins
Member & Pub. Rel. Director
Blue Ridge Electric Member Corp.

Rural electric cooperatives could be good candidates for adversity. They sell a product no one can see, collect payment after its use, and can't repossess it. And disconnecting service isn't very popular in small rural communities where people are close and word travels quickly.

We are losing our loyal "old time" members who understand what the co-op and electricity have meant to them. These folks are being replaced by generations familiar with the conveniences of electric power who almost feel they're "entitled" to electric service and see the co-op as just the "power company."

Many consumers of electricity, co-op members and investor-owned utility customers alike, see electric utilities as monopolies with little competition to keep their pricing in line. Consumer dependence on the product increases and the cost continues to go up.

Add to these factors are concerns by environmentalist about nuclear energy and disposal of nuclear waste. In the North Carolina mountains, we have the seasonal members who don't want the beauty of their piece of the mountains marred by what they believe to be sizable rights-of-way and electric lines and poles stringing the countryside.

Common Expectations

Most rural electric cooperatives are still serving essentially rural areas, although some co-ops are larger in size and may be serving some of what might be called suburban members. Blue Ridge Electric Membership Corporation, Lenoir, NC, (a cooperative) for example, is still serving a rural area. We are discovering, however, there is very little difference in what our "rural" members expect and what their suburban cousins want from their utilities.

With the passing of the generation of electric co-op members who remember what electricity did to change the quality of lives and bring a new kind of labor to country homes, farms, and small rural towns, we're seeing a changing attitude toward electric service. Our "new" member has always known electric service, had it readily available, and takes it for granted because it's so much an integral part of daily living. In these ways the new member is very much like the suburban consumer.

In 1985, National Rural Electric Cooperative Association commissioned the survey of rural electric leaders and consumers. Results confirmed the new generation of members on rural electric lines. Of those surveyed, only 12 percent were farmers or ranchers; 30 percent blue-collar workers; 26 percent retired; and 32 percent executives, professionals, sales personnel, or in other white-collar jobs. So you see, the gap between rural and suburban consumers is narrow, if not indefinable at times.

So how do we serve these new rural or suburban members? What do these new members expect from their electric cooperatives? In *Public Utilities Fortnightly* (Dec. 12, 1985) an article entitled "Customer Perceptions of the Value of Electricity" reported efforts to preach the value of electricity not only failed, but actually angered consumers. The article reported consumers wanted "... to be reassured their utility company cares for them as individuals through programs addressed to highly specific needs in bill payment, efficient use of energy, community involvement, new technology and so on."

We're All Consumers

When you think about it, we're all consumers. What do we want from any business with whom we deal for goods or services? We want a quality product at a reasonable cost and good service to go with it. We want enough information about the company, the product, and what we can expect of it. We like to feel we are important to that company and expect fair, courteous treatment in dealings with them. We want to make some choices in our purchase.

So what does a rural electric cooperative do to meet these expectations, whether they come from rural or suburban consumers? Blue Ridge Electric joined 26 other rural electrics in North Carolina to form the North Carolina Electric Membership Cooperative (NCEMC) and purchased part of a generating plant, built and operated by an investor-owned utility. Why? To better assure a continual source of power and have a greater voice in wholesale power costs. Our cooperative also joined NCEMC in a statewide load management program designed to control the use of electricity at costly peak load times by shutting off water heaters and central air conditioners. Why load management? To help hold down future electric rate increases to our members.

We strive to give good service through competent employees, modern equipment, 24-hour telephone service, a plan for systematically restoring power during outages, and training our employees to be member advocates regardless of their job responsibilities.

Orientation About Co-op

Members get the first information about their co-op business and its services in a brief orientation when they first apply for service. In addition to providing electric service, we also tell them they can save on energy costs through home energy surveys, building an energy efficient home, or purchasing energy-efficient appliances and using them wisely. We continue this education through a monthly member newsletter, member advisory committees, women's conferences, special school programs, and other civic and community programs.

To better assure delivery of fair and courteous treatment, we tell our employees what we expect and train them to be sure they understand and have the skills to carry it out. We ask our members how we are doing through small informal surveys, as well as our larger member opinion survey conducted every 2 years. We follow up on member concerns and complaints and try to make plans with the members needs and concerns in mind to avoid similar problems in the future.

We can offer our members a time-of-use rate so they can cut their energy costs by shifting the time they use electricity. Most recently, we established an energy services and marketing division to develop other choices to help members get the energy they need at prices they can pay, and still help the cooperative generate the revenue required for financial stability.

We strive to become good citizens of the communities we serve. Our referral program sends members needing assistance to providing agencies. Our commitment to economic development has provided leadership, spawned industrial growth, and improved the quality of life in these communities. Our managers and employees, alike, serve on hospital, social agency, and crimestopper boards. Some head Chambers of Commerce, United Way campaigns, and community fair projects. They support volunteer fire departments, Scouts, Little League, befriend troubled youth, and participate in many other civic activites. ■

Baltimore District Starts Restructuring

Farm Credit Banks of Baltimore have decided to begin a restructuring process aimed at merging 26 local Federal Land Bank Associations (FLBAs) and Production Credit Associations (PCAs) into single district-wide associations. The district-wide FLBA and PCA would continue to provide long- and short-term credit and financial services throughout the district. Chairman Harold B. Short said the district board had directed bank management to develop a plan for the timely restructuring. "Any resulting plan will be reviewed by all 26 local association boards and ultimately submitted to the stockholding borrowers of each association for their approval." A timetable for the restructuring process hasn't been firmly established, but will be part of the initial merger plan development.

Alto, Golden Guernsey Join

Two Wisconsin Dairy Cooperatives, Alto Creamery Cooperative, Alto, and Golden Guernsey Dairy Cooperative, Milwaukee, were officially consolidated July 1. Now known as Alto-Golden Guernsey Cooperative, the favorable vote for consolidation among Alto members was 481-36 and with Golden Guernsey, 990-56.

Grassroots, Co-op Partnership Ends

The partnership between Grassroots, the computer-based videotex information system for agriculture, and Southern States Cooperative (SSC), Agway, and CENEX has been terminated. A troubled agricultural economy and resources required for Southern States to expand the system into North Carolina were cited. Dr. Joe Coffey, SSC's director of economics and planning and a member of the Grassroots executive committee, said the U.S. and Canadian programs would be combined at Winnipeg. Coffey said the need still exists for an easy-to-use, inexpensive, computer-based information system for agriculture.

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MANAGEMENT TIP

Use Your Personal Computer as a Co-op Financial Tutor

Would you like to know more about the financial management of your cooperative? Help is available in a new way. It's called computer-assisted instruction.

You need two things: access to an IBM-compatible computer and a software package available from Purdue University. The program was developed through a cooperative agreement between Purdue and Agricultural Cooperative Service.

It is oriented to a typical local-area farm supply and marketing cooperative handling grain, feed, and fertilizer. The program was written with the financial officer, assistant manager, or manager in mind. But other employees or directors interested in improving their knowledge about the financial aspects of the cooperative also could benefit. The tutor explains and provides practice in the financial management of agricultural cooperatives. Objectives are to:

- teach principles of financial management;
- explain tools used in financial analysis;
- provide experience in the use of financial concepts and techniques;
- make you a better financial manager; and
- improve the performance of your cooperative.

Material is organized into the following 11 chapters: Introduction, Decision Making, Financial Statements, Measurement of Financial Results, Breakeven Analysis, Investment Analysis, Cash Management, Credit Management, Inventory Management, Risk Management, and Projecting Financial Results.

A glossary contains definitions of financial terms and formulas. A farm supply simulator models a cooperative having annual sales of $3.4 million. Decisions you can make concern credit policy, orders of selected feed and fertilizer, grain storage expansion, truck purchase, loans, and investments. Decisions may appear simplistic but the purpose is to demonstrate their impact on the business.

The program was developed by Emerson M. Babb, Kim E. Leburg, and Randall L. Fife in Purdue University's Department of Agricultural Economics.

The tutor will run on any IBM personal computer, or compatible, with at least 256K memory. It requires a color/graphics adapter and monitor to obtain graphs. Otherwise, a message is printed on the screen indicating the graph would be shown if the adapter were available. A printer is required to make a copy of some screens. The tutor assumes the user is familiar with the disk operating system for the computer.

You will find the tutor easy to use. It operates from menus and prompts. You can't damage it or your computer by mistakes made while using it. A printed instruction manual comes with the total package.

The Financial Management Tutor diskette and accompanying manual is $40 to educational institutions and farmer cooperatives. A check or purchase order should be sent to: Ms. Patt Edwards, Department of Agricultural Economics, Purdue University, West Lafayette, IN 47907.

Gene Ingalsbe
Director of Information and Education Staff